EXPENDITURE MANAGEMENT

A REVIEW AND RECOMMENDATIONS

FOR REFORM

FINAL REPORT TO THE
GOVERNMENT OF MANITOBA
NOVEMBER, 1986
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Consultants in Public Policy and Strategic Management

November 19, 1986

Honourable Eugene Kostyra
Minister of Finance
Government of Manitoba
Room 103, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister:

It is my privilege to submit to you the Final Report -- Expenditure Management -- A Review and Recommendations For Reform.

I have appreciated the opportunity to work with the fine staff of the Manitoba civil service on this important task. In particular, the work of the members of the Working Group on Expenditure Management was of great assistance. I have also appreciated your support in this undertaking and the support of your colleagues on the Special Committee.

The improvements to the existing expenditure management system which we have recommended are intended to assist in meeting the challenges posed by the fiscal situation within the vital objectives of fairness and maintenance of social and economic services.

I wish you well in the difficult duties of your office and hope that these recommendations are of some assistance to you.

Sincerely,

Michael B. Decter

Michael B. Decter
Managing Partner

cc: Honourable Howard Pawley
Honourable Vic Schroeder
Honourable Muriel Smith
Harvey Smith, M.L.A.
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EXECUTIVE SUMMARY

The Government of Manitoba has an urgent and serious need to improve the management of its expenditures. Despite steady improvement in expenditure management systems over the past two decades greater effectiveness is needed. Manitoba is now confronted with a need to preserve important social and economic services while coping with inadequate revenue growth from a troubled Federal Taxation System.

This review has focussed on fundamental concerns about "front-end" issues - in particular, the linkage between policy priorities and expenditure decisions as ensured by an effective operation and support of Cabinet and its committees. In taking the hard decisions it is essential that the context for those decisions has been well and thoroughly established. It is also essential that the expenditure management system deliver on the policy direction and political objectives formulated by the Cabinet. Without this foundation an expenditure management system is simply a process without purpose.

The recent evolution of Manitoba's expenditure management system has seen some extreme swings of the centralization vs. decentralization pendulum. After extremes of centralization in the early to mid 70's and decentralization in 1978-81 the current system has gradually tended toward moderate centralization.

A number of findings suggest that the expenditure management system requires improvement if it is to better serve elected and appointed participants. While not markedly better or worse than similar systems in other Canadian jurisdictions the major identified concerns include:

- o need for more consistency in decisions taken and in delegation of tasks to Cabinet committees and senior management,
- o need for more effective communication among senior managers and Cabinet,
- o need for more clarity in the overall agenda and timetable, and
- o need for longer-term planning time for senior managers and Ministers in making expenditure decisions.

Among the identified strengths of the current expenditure management system are such aspects as:

- o improved financial information system,
- o capable analytical staff,
- o capable line management staff.

In addition to the broad strengths and weaknesses found by the Review a number of specific issues or concerns were also identified:

- The one-year time frame for the estimates process is an inappropriate basis for effective budgeting for government programs, particularly given the long-term financial implications of many individual decisions.

- The current program base must be reduced in order to ensure that the government can maintain necessary expenditures in its core priority areas. Reduction of the program base will be a difficult and long-term process if it is to be effective in reducing the size and growth of expenditure commitments.

- The current Treasury Board operation needs to be overhauled to provide more focus on issues of significance and to fulfill its overview policy role (i.e. policy direction driving expenditure decisions) in the government-wide context.

- An excessive tendency to centralize controls and impose standard measures has removed responsibility and flexibility from managers, effectively releasing them from making management judgement calls for which they should be considered accountable.

- The Cabinet policy committees have not yet fulfilled their full potential to provide a valuable forum for establishing detailed policy direction and ensuring its integration into expenditure decisions of the government.

The Manitoba Government needs to realign responsibilities within its expenditure management system and to improve the effectiveness of that system's decision-making process. Recommended steps to achieve this broad goal include seven major proposals:

1. A strengthened and more broadly mandated Treasury Board with primary responsibility for all major revenue and expenditure decisions.

2. A delegation to Departmental managers of greater responsiblity for expenditure management decisions.

3. Narrower roles for the policy sub-committees of Cabinet and their realignment as advisory to the Treasury Board on policy matters.

4. A shortened and simplified estimates process focussed on major issues and shifted gradually to a five year basis from the current one year basis.

5. Mandating of a high priority to a continuing expenditure reduction and productivity enhancement process.

6. Reduction in the range of subsidies available to business.

7. A greater involvement and participation by employees at all levels in the decision-making process.

Many specific recommendations to implement these general proposals are presented in the full report.

A final conclusion is that for the Government of Manitoba to achieve its stated objectives of greater fairness combined with maintenance of important social and economic services, both reform of the expenditure management system and of the taxation system will be essential. Neither reform, by itself, can attain the objectives desired.

I. INTRODUCTION

A. The Process

In the spring of 1986, Cabinet approved a six month review of Manitoba's revenue and expenditure management options, in the context of:

* this government's commitment to greater fairness in both national and provincial taxation, and

* the government's commitment to maintain social and economic services in the face of the growing gap between revenue growth and expenditure growth.

Undertaking the review was a working group of Provincial Government officials chaired by Mr. Michael Decter, Managing Partner of The October Partnership:

Working Group On Expenditure Management

Mr. Michael Decter, Chairperson
Mrs. Donna Larsen, Coordinator, and Director of Financial and Program Analysis, E.R.I.C./Jobs Fund Secretariat
Mr. Winston Hodgins, Director of Treasury Board Support, Manitoba Finance
Mr. Bill Fraser, Comptroller, Manitoba Finance
Mr. Art Goldsmith, Acting Secretary of the Social Resources Committee of Cabinet
Ms. Elisabeth Wagner, Secretary of the Economic Resource Investment Committee of Cabinet
Dr. Nick Poushinsky, Special Advisor to the Minister of Health and Former Secretary of the Social Resources Committee of Cabinet
Mr. Eric Harbottle, Deputy Minister of Government Services
Mr. Jim Eldridge, Secretary to Cabinet for Intergovernmental Relations
Mr. David Woodbury, Special Advisor to the Minister of Finance.

The Working Group reported to a Special Ministerial Committee chaired by the Minister of Finance:

Special Committee on Tax Reform and Expenditure Management

Honourable Eugene Kostyra (Chair), Minister of Finance
Premier Howard Pawley
Honourable Vic Schroeder, Chairperson of the Economic Resource Investment Committee of Cabinet
Honourable Muriel Smith, Chairperson of the Social Resources Committee of Cabinet
Mr. Harvey Smith, M.L.A. and Legislative Assistant to the Minister of Finance
Mr. David Woodbury, Special Advisor to the Minister of Finance
Mr. George Ford, Clerk of the Executive Council
Mr. Charles Curtis, Deputy Minister of Finance

The following objectives were approved by the Special Committee for the review of expenditure management.

1. To review the current expenditure management system in the Manitoba Government and identify its strengths and weaknesses.

2. To identify alternative expenditure management arrangements which would improve the current system.

3. Within the expenditure management review, to review the current annual estimates process and consider options for improvement, including --

   (a) a longer time frame for expenditure approvals; and

   (b) a better level of communication between the provincial government and the external agencies that it funds.

4. To identify related areas requiring attention, including --

   (a) administrative inefficiencies resulting from duplication and overlapping responsibilities across departments;

   (b) inappropriate subsidies which could be reduced and/or eliminated over time; and

   (c) services which can and should operate on a full cost recovery basis.

5. To recommend government action on any and all matters reviewed in the context of the Working Group's efforts.

For the past six months it has been a tremendous source of strength to this review to have the talents and insights of the members of the Working Group on Expenditure Management. As well, the full-time and capable assistance of Mrs. Donna Larsen has been an enormous support to this review. Their efforts have greatly assisted in the preparation of this report. However, responsibility for the recommendations must rest solely with the Chairperson of the Working Group.

B. The Context and Challenge

A new era of government has arrived. What were originally perceived to be necessary but temporary restraints on the expenditure side of government have become an integral component of budgetary planning for both the short and long terms.

Governments have always had to allocate limited resources in an environment of unlimited demands and ideas for expenditures. What has changed is the ability of revenue sources to support the now major base of programs that have grown significantly in size and cost. In Manitoba, it has become increasingly clear that the existing range of initiatives is simply not affordable and cannot be sustained over the long term in the absence of national tax reform without a steady increase in the total taxload and a significant improvement in productivity. Without these actions, the alternative consequences will be an increased level of deficit and increased debt servicing costs.

Many of the major causes of this situation have their roots in the tax system and are reviewed in more detail in the companion study - Taxation - A Review and Recommendation for Reform. Some of these reasons can be summarized as follows:

- a number of changes over the past fifteen years in the Federal Personal Income tax which have reduced Provincial revenue growth;
- a number of changes over the past fifteen years in the Federal Corporate Income Tax which have eroded both Federal and Provincial revenues;
- changes in the Equalization formula and the Established Program Financing legislation will reduce future growth in Provincial revenue from the Federal Treasury;
- Manitoba currently has one of the high proportions of senior citizens among its population relative to any of the Provinces;
- counter-cyclical employment and economic development efforts which added significantly to the Province's expenditure package in 1982/83 continue, and
- a period of historically unprecedented high interest rates which increased the cost of Provincial borrowing and damaged the business base of the Province's manufacturing and farm economy.

The Manitoba Government has indicated its willingness to meet the challenge in this more demanding expenditure management environment. Through the initiation of this review and other internal actions, the Manitoba Government has signalled its understanding of and interest in the fundamental need to reassess and reinforce the expenditure priorities which must be consolidated and properly supported through an effective expenditure management system.

This review has involved a broad range of discussions about a number of specific expenditure management issues. However, the focus of attention has consistently centered on fundamental concerns about "front-end" issues. In particular, the linkage between policy priorities and expenditure decisions has been identified as essential, requiring an effective operation and support of the Cabinet and its committees. Appropriately, the process by which decisions are made and not the content of the decisions has been the primary focus.

The expenditure management system is an integral component of the structure of government, as it is for any large organization. The detailed mechanical workings of the system must be tuned to the broad policy parameters established by the primary decision-making function which is centered in the Cabinet.

While management of the actual processes controlling government expenditures is extremely important, those processes are in effect only instruments of a policy thrust. Management of the processes must be deliberately and consistently linked to the management of the policy framework which is the required driving force for expenditure decisions.

To undertake a review of Manitoba's expenditure management system, therefore, it was essential to consider the larger context in which the system operates. As a result, in providing an assessment of the current system, the report addresses the need for improvements to the current structure of Cabinet and its committees as well as the support provided to them. Only with a significant improvement to the focus of the system will the supplementary and more administrative proposals for remedies to current problems have their desired impact.

The fundamental objective of an effective expenditure management system must be to have it deliver on the policy direction and political objectives which are established by the Cabinet. Without a clear policy and political framework, the expenditure management system will become simply a process without a direction. Judging the government's success will become an exercise of measuring efficiency in a vacuum, with accountability ensured for everything except the most important feature of all -- whether the government is implementing its priorities in an effective and efficient fashion.

II. EVOLUTION OF THE EXPENDITURE MANAGEMENT SYSTEM

The Manitoba Government is the largest employer, direct and indirect, in the Province. The Provincial Government through its agencies and Crown corporations expends over $5 billion per annum on wages, goods and services. The management of any large organization in the rapidly changing environment is a difficult challenge. The management of an organization with objectives as complex as a provincial government is an exceedingly difficult challenge. The structures of the expenditure management system have evolved over the past two and one half decades in response to the increasing scale and complexity of the organization.

A. The Organizational Context

There is no known 'correct' balance between centralization and decentralization of planning and expenditure management authorities. Public administration remains well short of a science in its ability to generate universal or absolute truths. The fiscal situation, style of management of the Premier and Cabinet, and priorities of the Government are all factors to be considered in structuring central agencies in any particular jurisdiction.

1. Cabinet

The operation of Cabinet itself is a critical component in the expenditure management system, particularly considering the importance of the annual budget and expenditure estimates as the single major policy instrument of the government. Cabinet is the ultimate decision-making authority, and as such must concentrate a serious effort on using its limited and valuable time as a decision-making body to greatest effect.

There are three broad issues associated with ensuring an effective Cabinet operation:

a. The extent of power sharing, which is determined in large part by whether there is a high or low degree of consensus decision-making. With a lower degree of consensus, distribution of power is highly uneven, evidenced by the existence of "super-ministries" or "inner" and "outer" Cabinets or a Premier-dominated decision-making process. With a higher degree of consensus, distribution of power is essentially even across all Ministers, with each Cabinet member having an equal voice in the decision-making process and the weight of decisions being enhanced by the majority "buying in" to one view on a particular issue.

A well-managed consensus-oriented decision process ensures that by the time a major decision is made, every Cabinet Minister has the information and background necessary not only to defend the decision in terms of political solidarity with his Cabinet colleagues, but also to speak effectively on the substantive position being taken by Cabinet in making the decision.

b. The extent of ideological coherence within the Cabinet decision-making process; in other words, the variations in degree to which Cabinets are united in their decision-making by commitment to a coherent set of ideologically-derived objectives. The relevant, if irreverent, dictum about Cabinet government is that Cabinet Ministers will hang separately if they don't hang together.

The unity behind the decisions made by Cabinet requires a substantive base and must go beyond "hanging together" on grounds of simple political survival. Without ideological and longer-term considerations being the foundation of the decision-making process, the operation of Cabinet loses its credibility as the centre of focus and direction for the rest of government.

c. The dimension of administrative unity in the management of Cabinet government, which is determined by the extent to which all agencies of the government receive roughly equal treatment in such matters as the scrutiny of their proposed plans, and in assessments of their performance. Here, the dictum of "no special pleading" is a crucial ground rule.

Administrative unity is founded in a tough but fair planning and resource allocation system whereby Cabinet delegates the tasks of generation and selection of public policy options and ensures an essential interface function between senior managers and Cabinet. This is accomplished through the existence of Cabinet committees supported by a capable staff function.

Cabinet's overall responsibility is to take ideological or philosophical direction from its party and its platform and combine it with planning directions from government agencies and departments. Its task is to blend them into a coherent assessment of where the government is and should

be at any point in time. To manage this responsibility, Cabinet must ensure that it balances the diversity inherent in its operations, a diversity which is evident in three dimensions:

a. the broadest range of options that can be brought to bear on a particular issue during the course of Cabinet deliberations;

b. the volume of decisions that have to be made; and

c. the varying backgrounds, experience, views, and objectives of individual Ministers.

Every Cabinet decision should be taken with consideration of two basic perspectives -- the administrative base-line associated with the issue (e.g. cost and impact within the framework of government) and the political realities that the government faces in the broader society and economy.

2. Senior Managers

The government's senior managers should represent a team of talented individuals who are fully capable of both implementing Cabinet decisions, and generating public policy options which are consistent with Cabinet's stated policy and administrative objectives.

In some jurisdictions, senior managers are designated as "Permanent Heads" because they tend to represent a dedicated tradition of career public servants, individuals who provide the potential for continuity in a large organization which answers to the members of a somewhat less permanent decision-making body. The responsibility of senior managers within the government is much the same as it is in other organizations:

a. planning, organizing, reporting, controlling and evaluating the utilization of resources, and

b. accounting for the results of the use of those resources.

Senior managers function best within a framework established by Cabinet through the articulation of its strategic game plan. If Cabinet concentrates on the key turning point decisions that set the future course of the government, senior managers are in a position to make credible long-range plans that are consistent with Cabinet's priorities. Without a well defined and Cabinet approved strategic framework, senior managers are vulnerable to a variety of pressures.

3. Cabinet Committees

The use of Cabinet committees is a key element of an effective government structure. In particular, Cabinet committees can ensure an effective exchange of information and recommendations between senior managers and Cabinet.

The senior Cabinet committee is ideally the Treasury Board because of its inherent responsibility for any decision which affects the government's finances. Through the management of revenues, expenditures, and any related issues, Treasury Board in effect becomes the manager of the nuts and bolts of Cabinet's game plan: The designated responsibility center for the total financial picture of the government. The essence of Treasury Board's activities should be a constant process of selection, choosing among competing revenues, competing programs and competing benefits, and selecting options which are consistent with both Cabinet's game plan and the province's fiscal capabilities. The fiscal factor forces difficult choices among priorities.

Treasury Board's logical role as the management committee of Cabinet extends beyond the more narrow financial management function to the whole range of major operating decisions within government and their relationship to Cabinet's policy priorities.

The extension of the Cabinet Committee function beyond Treasury Board varies in form across jurisdictions. There is a tendency to supplement the Treasury Board operation with a committee or several committees more focussed on policy planning issues. While this can be a useful forum for addressing broader and longer term issues than could normally be channelled into a Treasury Board setting, it is essential to maintain the integrity of the Treasury Board committee as responsible for all operating decisions and related issues. Consequently, the policy or planning committee(s) of Cabinet should address issues of policy choices and objectives, with any related operating implications addressed in a Treasury Board setting before any approvals by the Cabinet as a whole.

In the Manitoba context, the Treasury Board operation is not sufficiently fulfilling its broad "management committee" role primarily because of its focus on small, narrow and detailed expenditure issues. The Social Resources and Economic Resource Investment Cabinet Committees have the potential to provide valuable

policy-setting forums but their roles need clarification and their operations need improvements on a number of fronts. Both Committees require a closer relationship with the Treasury Board operation. The Social Resources Committee also requires a better defined mandate.

The dependence of the Cabinet Committees on a strong analytical staff support base is an essential feature of their effective operation. Senior managers, despite their being part of a "team", cannot be expected to bring forward proposals in an overview context fully cognizant of the broader government policy and program priorities and fiscal limitations. Nor can Ministers effectively apply the necessary time and attention to the details of proposals in order to consider their "fit" in the total parameters for government operations. As a result, a group of capable knowledgeable staff must be in place to serve the Cabinet Committee Ministers and thereby serve the decision-making process. These staff members must necessarily be aware of both the administrative and policy perspectives of the government, be capable of giving advice in both areas, and be able to present that advice in written and verbal form as analysis and recommendations to the Ministers.

B. Scale and Complexity of Government

One dimension of government which has altered dramatically in the past several decades is its scale and complexity. The Manitoba Government has expanded from a scale of 16 departments, 3,760 employees and a $109.4 million budget in 1957/58 to 25 departments, 17,800 employees and $3.9 billion in spending today. As the following chart illustrates there is a very different scale and complexity of challenge faced by the current 21 Ministers of the Manitoba Cabinet in contrast with that faced by their nine predecessors in 1958.

Year	Number of Departments	Civil Service Size	Total Expenditure (Millions of $)
1957/58	16	3,760	109.4
1962/63	16	5,559	171.7
1967/68	16	7,059	360.7
1972/73	16	11,600	660.5
1976/77	19	17,238	1,304.4
1986/87	25	17,808	3,869.6

Complexity is more than a consequence of size. The environment in which governments operate has become crowded with interest group concerns, new issues and behaviour expectations quite unknown a decade or two ago. Where the Cabinet of Premier Roblin might hear annually from the Chamber of Commerce, farm organizations and the Federation of Labour, recent Premiers and Cabinets are deluged with dozens of requests from groups within the community. Issues such as pay equity; workplace health and safety; freedom of information; conflict of interest and affirmative action have been added to the already difficult managerial tasks of program delivery. Such is the complexity and challenge that program managers are often hard pressed to cope.

C. Major Reform and Changes 1960 to 1978

There are a number of available views of the successes and failures of the organizational approaches of the Government of Manitoba in the period 1969 to the present. The history and basic operating principles of the various approaches offer little opportunity for debate. Their subjective outcomes offer a much wider array of opinions. The evolution of the machinery of government in Manitoba over this period had its origins in the late 1960's with Operation Productivity and was influenced in a major way by the decisions of the Lyon Government in 1978. Since 1978 there have been changes in the expenditure management system but they have not been of a sweeping nature.

An internal government report[1] had the following comments on this decade.

Manitoba's Experience with a High Profile Central Agency Function: 1969 - 1978

1. An Overview of the System 1969 - 1978

Near the end of the Walter Weir administration (1969) a major government-wide study titled "Operation Productivity" was published. The numerous reports issued from the study included a number of far reaching conclusions and recommendations. Notable among those concerned the role of Central government and central agencies. Many of these central government recommendations were acted upon and expanded on by the

[1]*Internal Department of Finance document, December 1984 report entitled "Cabinet Committees and Central Agencies - An Overview of Manitoba and Other Jurisdictions Experiences".*

Schreyer administration from 1970-1978. During this period the central agency support functions within the government transformed and grew. The result was a substantial and highly centralized-central agency system. It included the following agencies and activities:

a. **Planning and Priorities Committee of Cabinet** - *Supported by the Planning Secretariat (Approximately 20-30 staff).*

- *Dealt with policy evaluation; including the review of ongoing programs and departmental submissions. Coordinated policy making groups and undertook research and forecasting toward development and implementation of government policy.*

b. **Policy Committees of Cabinet** *with Supporting Secretariats.*
(Precise staffing figures unavailable)

- *Health Education and Social Planning*
- *Resource and Economic Development Committee*
- *Winter Works Committee*

c. **Civil Service Commission**

- *Recruiting and Selection*
- *Consulting Service*
- *Manpower Planning*
- *Equal Opportunity Program*

d. **The Department of Finance**

- *General Administration Division*
- *Treasury Division*
- *Comptroller's Division*
- *Taxation Division*
- *Federal - Provincial Relations Division*

e. *The Management Committee of Cabinet with Supporting Secretariat. This secretariat replaced the former Budget Branch of the Department of Finance. Total Staff Complement of 88 staff years. The secretariat was comprised of the following functions:*

o	*Program Audit*	*- 10 staff years*
o	*Data Processing*	*- 5 staff years*
o	*Personnel Administration)*	
o	*Development and Training)*	*- 61 staff years*
o	*Staff Relations)*	
o	*Management Advisory Services)*	*- 12 staff years*
o	*Special Consultants)*	

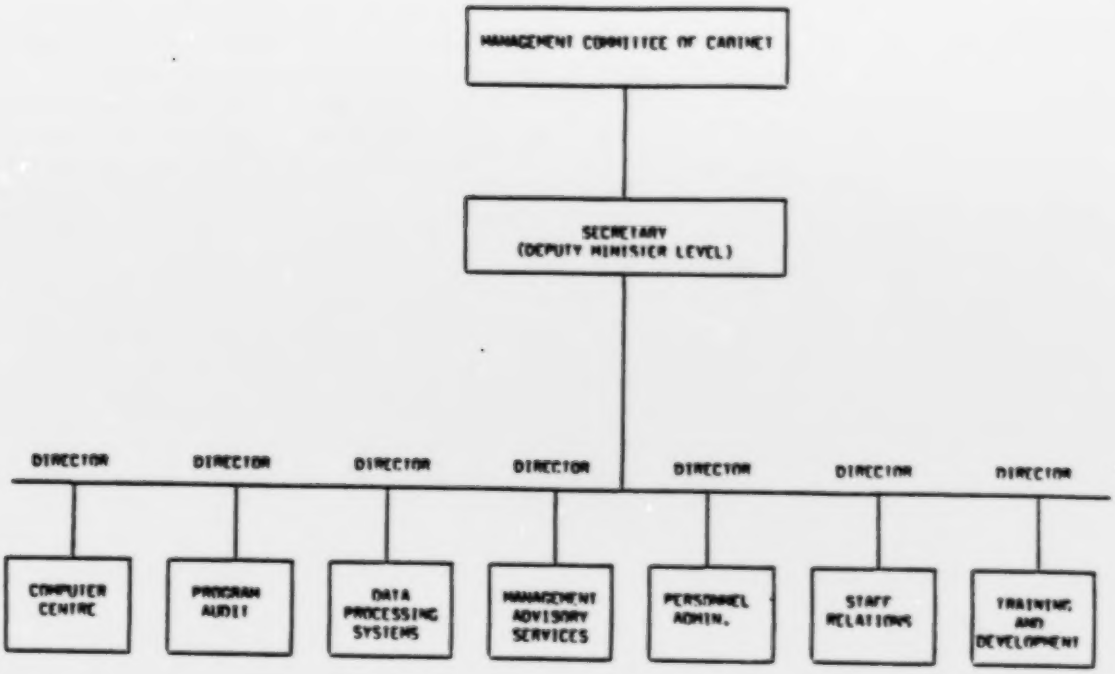
2. *Characteristics of the Central Government Establishment: 1969-1978*

- *Centralized direction and centralized management.*
- *Line departments were filtered from central decision-making by a layer of central agency support functions.*
- *System encouraged central coordination.*
- *Necessary staff resources were in one place.*
- *Facilitated information sharing and communication at centre.*
- *Major decision-making and coordination responsibilities of Cabinet, The Management Committee and the Policy Committees were supported by significant staff resources.*
- *Central agency staff carried a high profile, perhaps too high.*
- *Department managers felt the system was too centralized.*
- *Competition and friction existed between the various central agencies and line departments.*
- *Roles and Responsibilities between all the major participants in the process, Cabinet Ministers, Deputy Ministers, Central Agency staff and Departmental staff were not clarified nor understood.*
- *Not enough emphasis was placed on improving the management practices and information flows at the Departmental level. The result was a too-heavy central government function that did not have adequate departmental based information.*
- *Provincial Auditor felt the system promoted duplication.*
- *Central agency staff were seen by some to have become "politicized".*

From many vantage points, therefore, the experiment with a highly centralized support function during the period 1969-1978 was not a pleasant one. This experience plus the need in the current environment, to restrict resourcing and staffing increases; dictates that any realignments in central agency support functions should be undertaken with caution and foresight.

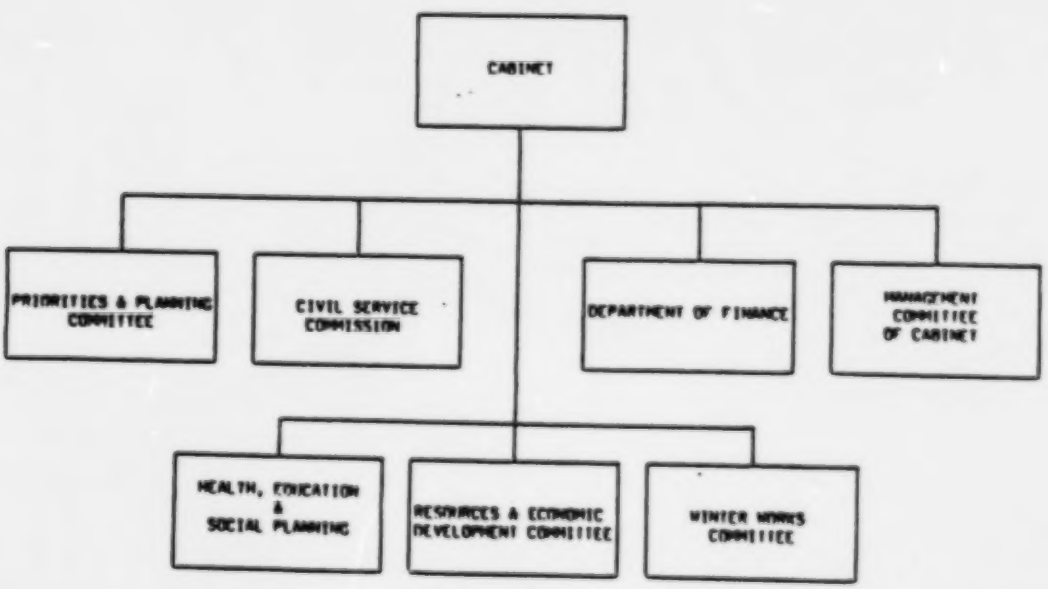
This view is not the only available insight into the 1969 - 78 period. Balancing the problems associated with a heavily centralized system should be consideration of an extraordinary amount of innovation in a wide variety of program and policy fields. The centralized system had major strengths in the areas of policy and program innovation but a tendency to less than fully effective program delivery.

The Management Committee of Cabinet: 1978



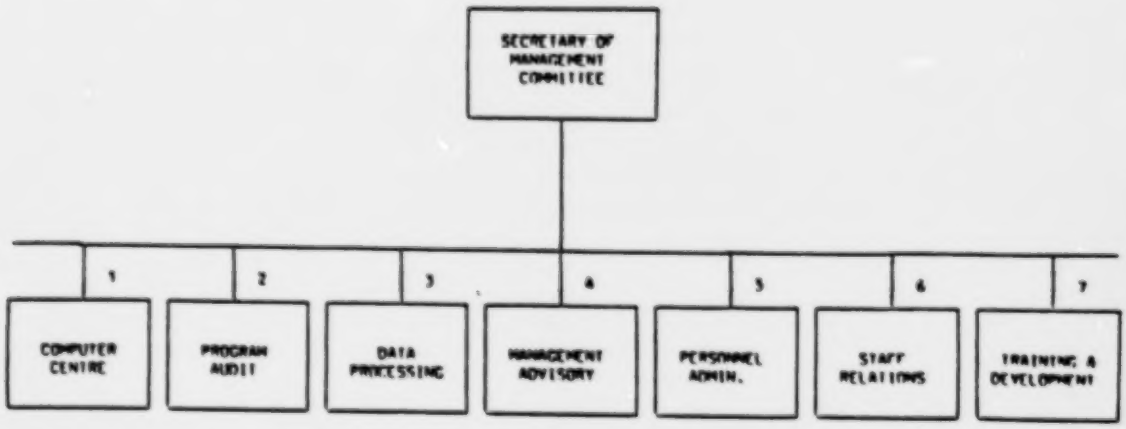
The Manitoba Government's Central Agencies: 1978

NOTE: Priorities and Planning Committee and Management Committee acted as a coordinating and analytical body between the Policy Area Committees and the Cabinet as a whole.



Organizational Re-Alignments: 1970-1979

THE MANAGEMENT COMMITTEE OF CABINET - SECRETARIAT



1. Transferred to Manitoba Telephone System 1972 - later became Manitoba Data Services
2. Transferred to Comptroller's Division Finance, combined with Shared Cost Agreements to form Treasury Board Support and Financial Analysis Branch. Approximately 50% of former staffing levels at lower classifications.
3. Information Management Division.
4. Transferred to Comptroller's Division Finance, combined with Systems Planning and Development approximately, 25% of former staffing levels.
5.) Transferred to Civil Service Commission
7.)

D. The 1978 Changes

The Lyon Government in 1978 brought a return to a 'leaner' central agency function with a Treasury Board; return of all personnel functions to the Civil Service Commission; and return of planning responsibilities to departments. Two of these changes were maintained through-out the 1978-1981 period; the roles of Treasury Board and The Civil Service Commission. However issues and policy management problems developed and the response was the re-creation of a small central group, the Policy Coordination Group, lodged with the Department of Executive Council.

Much of the Lyon Government's thrust was towards a simpler era of central government function. The Task Force on Government Organization and Economy had the following comments on the 1977 organization as it had evolved from the 1969-70 reorganization.

> *In summary, then, a relatively simple central management structure composed of two Cabinet committees each served by a small staff group had become a complex array of "Planning Cabinet" and eight Cabinet Committees, served by two significant and powerful bureaucracies.*
>
> *The primary result of the central management structure was not efficient and effective operations, but rather frustrated departmental management and often ineffectual program delivery. To receive approval for new or revised policy or program initiatives, departments sometimes had to go through two or more Cabinet sub-Committees and Cabinet. After they had received policy approval they had to go to Management Committee for approval. Similarly, on-going programs required annual, line by line estimates review, periodic program audit, approval of all individual expenditures over $25,000 and so forth. The authority of the line department manager was thereby undermined. In this situation, accountability for achieving program objectives tended to break down.*
>
> *No individual Minister devoted full-time to matters of overall government administration. No one at the Cabinet level had comprehensive responsibility for all personnel matters. No Minister spent full-time on the preparation of legislation and the development of policy, and there was no single, systematic overview of intergovernmental relations. In short, as a result of structural factors and despite a great deal of Ministerial time spent on Cabinet Committee work, there was and is inadequate attention to the central management of a $1.5 billion operation.*

With respect to the Crown Corporation portion of the public sector, government control is also limited. It is restricted to a series of separate, individualized reporting relationships between Corporations and their respective Ministers. There is only limited central supervision and monitoring of the Crown Corporation sector as a whole, despite its immense importance in expenditure, employment and services, to the Manitoba economy. Nor is there any system for common or comparative review of the performance of Crown Corporations. This is true at both the political and bureaucratic levels.

After a decade of growth and adjustment, there is a clear need to systematically re-think and re-structure the central management structure of the Manitoba Government.

The rethinking and readjustment did not follow the advice of the Task Force. Instead the early elimination of the various sub-committees and the re-establishment of Treasury Board was the dominant reorganization of 1978.

It was not until 1983 that a Department of Crown Investments was extablished, and full supervision of the Crown corporation sector remains an elusive objective.

E. Developments Since 1979

Over the past seven years, there has been a gradual return to greater centralization. Creation of a Compensation Sub-Committee has re-centralized management of collective bargaining, and two major policy sub-committees (Economic and Resource Investment Committee - ERIC and Social Resources Committee - SRC) have been created and staffing to them gradually increased. While the pendulum of centralization/decentralization has moved back from the extremes of the mid-1970's (extreme centralization) and the 1978-81 period (extreme decentralization), the system has the same essential logic to its organization adopted in 1978.

F. The Existing System

The traditional overall government priority setting process and decision making responsibilities that are delegated to "Priority and Planning" Committees in other Canadian jurisdictions is retained as a responsibility of the full Cabinet in Manitoba. Moreover, individual departmental ministers play a more direct and independent role in Manitoba than in some other jurisdictions where "policy committees" have been formalized and entrenched.

The following more detailed description of the existing system is contained in an internal working paper.

1. *The Social Resources (S.R.C.), Economic Resource Investment (E.R.I.C.) and Treasury Board are the major ongoing committees of Cabinet.*

   The S.R.C. and E.R.I.C. committees are comprised of those cabinet ministers that have portfolio responsibilities in these policy areas. One minister is designated as chairman. Both policy committees are primarily concerned with the policy and program implications of departmental operations. Priorization, consistency and coordination activities are their chief concerns. A small analytical support function was initially provided to these Cabinet committees on an ongoing basis through the Executive Council and on occasion by the Treasury Board Support Section of the Department of Finance. More recently analytical staff support to E.R.I.C. and S.R.C. Committees have been put in place in separate Committee Secretariats.

2. *The Treasury Board is a committee of Cabinet made up of six ministers. The general management of the government has been assigned to Treasury Board by Cabinet. Its specific responsibilities are set out in Order-In-Council 993/81. In general, however, Treasury Board has three broad areas of responsibility:*

   a. *The determination of departmental and program resource allocations, both human and financial, that reflect the provincial fiscal plan, through the approval of annual departmental estimates and special submissions;*

   b. *The definition and implementation of appropriate central and departmental management systems. Current initiatives centre on the implementation of a government-wide planning generated resource allocation system as well as the development of an internal audit capability in departments.*

   c. *The ongoing monitoring and review of departmental and program results.*

   Contact and communication between Treasury Board and departments as well as other Cabinet committees is maintained through a variety of channels:

a. *Treasury Board analysts in the Treasury Board Support Branch are given specific departmental assignments. These individuals help to maintain ongoing departmental - Treasury Board communication.*

b. *The full Cabinet forum provides the opportunity for ongoing communication between departmental and Treasury Board ministers.*

c. *During the annual Treasury Board review of departmental estimates each departmental minister is present to represent his/her department's submission.*

3. *Existing Analytical Support To Treasury Board*

Staff support for Treasury Board is situated primarily in the Comptroller's Division of the Department of Finance. A decentralized approach governs the current nature of this support. Consequently, program content analysis such as: sectoral implications and impacts, consistency with overall government policy and direction, as well as interdepartmental and intergovernmental coordination has been assigned to individual departments and Cabinet Committees. Direct analyses to Treasury Board, therefore, is restricted to ongoing financial and staffing implications, and longer term management systems advice. Recently, the Department of Finance has been called upon to provide analytical support that extends beyond its customary role in terms of program content analysis (Treasury Board Reviews). Resource analysis is provided by the Treasury Board Support Section and management systems is provided by the Management Practices Unit of the Financial and Management Systems Branch.

a. *Treasury Board Support Section of the Treasury Board Support and Financial Analysis Branch (10 approved staff years). This section's major responsibilities are primarily financial in nature and they include:*

- *responsibility for the Budget Review Exercise;*
- *financial forecasting on a government-wide basis;*
- *provision of support to Treasury Board by reviewing and making recommendations with respect to Treasury Board submissions;*
- *participating on behalf of the Minister of Finance on Agreement Management Committees; and*
- *preparation of fiscal framework material for Treasury Board and Cabinet.*

b. *Management Practices Unit of the Systems Planning and Development Branch (5 approved staff years).*

The role of this unit is to develop and implement appropriate management systems for the Government of Manitoba. Two overriding considerations dictate the makeup of the management systems initiatives that are underway in the Manitoba Government. The management philosophy of this government is "results oriented". This orientation requires an overall management system that has an approved set of mutually compatible plans and planning processes that serve as the driving force behind program priorizations, resource allocations, general operations and eventually results monitoring.

Secondly, the current management strategy of the Manitoba Government is one of decentralized departmental decision making. In keeping with this approach the government's central agencies attempt to place less emphasis on the approval of individual departmental decisions than it does on the development of management systems that are used to make decisions. A rational and integrated departmental decision making process that is based on a sound management planning framework and that relies on a stream of relevant program and resource information, will produce good management decisions.

Given these considerations, the management practices unit's major task is to design a set of mutually interdependent management processes that will:

- *meet the fundamental prerequisites of sound public management;*
- *link broad cabinet priorities to: resource guidelines, department plans, departmental estimates, and eventually realized results;*
- *when implemented, will provide central government (Cabinet and Treasury Board) as well as senior departmental management with necessary and meaningful decision-making information;*
- *will allow for an appropriate degree of departmental management autonomy, recognizing the unique operating environments of the government's diverse departments.*

III. ALTERNATIVE MODELS

In considering alternative models for expenditure management systems, the Working Group focussed attention on what other provinces and the federal government have done or are doing in this policy area. The closest examination was of initiatives of the Governments of Ontario, Saskatchewan, British Columbia, Quebec, and Canada. In these jurisdictions there are significant differences in approach, including the following:

* The Government of Canada attempts to manage its vast and complex array of expenditures through an envelope system, multi-year budgeting, and PEMS (Policy and Expenditure Management System).

* The Ontario Government focus on centralized controls and standards (through its Management Board), balanced with a decentralization of many decision-making functions.

* The Saskatchewan Government experience with its Treasury Board model focussing on linking the government's expenditure decisions with policy priorities, having all expenditure-related decisions channelled through Treasury Board in the first instance, the historical approach of determining the expenditure thrust only after defining the optimum revenue base available to support the expenditures, and the emphasis on clarifying the long-term fiscal implications of expenditure and revenue decisions prior to a course of action being set.

* The British Columbia Government's recent severe restraint measures enacted to reduce the size of the provincial government.

* The Quebec Government's move to make significant salary reductions across the public service as a major cost-saving measure.

Given the common challenge among provinces of restraining expenditures, it is useful to consider some of the special initiatives undertaken recently in this regard. L. R. Jones, in an article published in Canadian Public Administration (Summer 1986 edition), examined the approaches taken in Manitoba, Saskatchewan, and British Columbia between 1983 and 1985. This section of the report includes points raised in that review in the outline of the Saskatchewan and British Columbia models.

A. Government of Canada

With respect to the Government of Canada, the Policy and Expenditure Management System (P.E.M.S.) was introduced early in the 1980s primarily to ensure greater Ministerial control over policies and expenditures. This was a response to a situation in which Ministerial control was considered to have been dramatically reduced over time as the government grew in size and complexity. The PEMS was expected to encourage the selection of the most appropriate policy choice with due regard for resource implications. The principles of the PEMS established the basic parameters for its operation:

1. integration of policy-making and expenditure decision-making;

2. decentralization of decision-making authority to the Policy Committees of Cabinet;

3. publication of a longer term fiscal plan encompassing government revenues and expenditures over a five-year period;

4. establishment of expenditure limits or "resource envelopes" for policy sectors consistent with the fiscal plan and the government's priorities, with appropriate Policy Committees of Cabinet assigned the responsibility to manage their envelopes;

5. development of policy sector strategies by the Policy Committees;

6. review of existing policies and programs and their resource levels;

7. referral of proposals with policy implications to the relevant Policy Committees for decisions;

8. primary responsibility of Treasury Board for the overall integrity of the financial and other resource systems, the accuracy of costing present and proposed policies, and timely advice to Ministers on the efficient management of public resources generally;

9. the integration of policy and expenditure advice; and

10. the timely sharing of appropriate information among all central agencies.

There are varying views on the effectiveness of the PEMS as it has operated in the federal system. However, it is clear that its achievements have been on a much more modest scale than initially expected. The reliance of the system on effective teamwork across the various agencies involved is probably the central weakness. The maze of checks and balances which has evolved within the federal system is fundamentally too extensive to apply the simplicity of basic operating principles (i.e. referral of proposals to the correct reviewing function, information sharing between central agencies, forcing a fit of short-term priorities with a longer range multi-year operational plan) to the complexity of such a large organization.

The PEMS was intended to address expenditure management issues on a massive scale. Its direct applicability, therefore, in the significantly more diminutive Manitoba context, is questionable. What is clearly applicable, however, from the federal approach, is the thematic emphasis on linking policy priorities with expenditure decision, the dominance of Treasury Board in the decision-making structure allocated to Cabinet Committees, and the teamwork approach to common objectives (i.e. through cooperation and information sharing across central agency functions).

B. Other Provincial Governments

1. Ontario Government

A study done by Price Waterhouse Associates in 1985 addressed the issues of management and accountability in the Ontario government, and concluded that a reasonable accountability structure is in place but that it could be strengthened. It further concluded that although Management Board and the Civil Service Commission have initiated many improvements in government-wide management practices, there are opportunities to make these practices more effective. The potential for improvements is supported by the fact that the working climate and attitudes of senior civil servants broadly indicate a healthy management organization that is dedicated to getting things done. The report focussed on issues of accountability and getting things done "within the rules", supporting as a fundamental principle that responsibility and accountability of the Minister for total Ministry performance be continued and clearly recognized. In Ontario, a major strength noted in the government's operations was the Ministers and deputies having a consistent understanding of and respect for each other's duties and responsibilities.

Probably the most appropriate one-word description of the Ontario model is "stability". The stability is in part reinforced by the system of appointing deputies for three-year terms and emphasizing their accountability to the Premier for satisfying government-wide interests and responsibilities as senior servants of the government. Normally, there would be harmony between the deputy's duty to serve the Premier and to serve the Minister; if an irreconcilable conflict arises, the Premier has to resolve it.

Deputy Ministers also are responsible to the Management Board, which directs the Estimates process, coordinates the implementation of programs, assesses program results in relation to resource allocations, controls expenditures, prescribes administrative policies, and initiates improvement in management practices.

The Price Waterhouse study looked closely at the Manual of Administration which lays out the Ontario Management Board's administrative rules and concluded that while it was comprehensive, reasonably clear, and pragmatic, it tended to restrict initiative unduly, to inhibit accountability by including extensive detail, and it lacked a review mechanism to ensure that the rules continue to be effective. These findings may be worthy of note in Manitoba, given the importance of the General Manual of Administration in the expenditure management system.

Other applicable features of the Ontario system may be found in the approach to making deputy appointments and reinforcing the Ministerial-senior management linkage. The Management Board is effectively Ontario's Treasury Board, and its overall importance within the government system is consistent with the role the Manitoba Treasury Board should be fulfilling.

A major point of interest in recent Ontario initiatives is the new initiative in capital management announced in May of 1986. The objectives of the program are to provide a corporate perspective on capital and long-term investment, to promote comprehensive multi-year capital planning, to provide a coordinated process for resource allocation (recognizing the multi-year funding requirements of capital investments and their impact on operating budgets), to ensure that capital funds are spent on capital projects, to provide an appropriate method of in-year reallocation of capital funds (made available due to cancellations or delays), and to focus on capital and long-term investment as an economic tool as well as a program delivery tool. The Ontario Government is continuing to develop the detailed structure to support this initiative in the management of capital spending.

2. Saskatchewan Government

With its roots in the financial devastation of the 1930s, the Saskatchewan Government's expenditure management system grew out of forty years of consistent building and reinforcing of centrally directed and controlled standards of management, with a decided emphasis on making expenditure decisions fit within a clearly articulated revenue framework. The affordability of government initiatives was established as a traditional starting point for the decision-making process.

The scale of the Saskatchewan operation is clearly more applicable to the Manitoba context than either the federal or Ontario models. With a similar base of population and budget size, the better parts of the Saskatchewan experience can be a useful reference point when considering the weaknesses in the Manitoba scene. In particular, the detailed workings of the Saskatchewan Treasury Board operation circa 1980 in the management of government are worthy of review.

The Treasury Board staff unit consisted of two key groups in the early 1980's: Budget Bureau and the Tax and Fiscal Policy Branch of the Department of Finance. The former dealt with expenditure program and policy issues. The latter dealt with issues involving all government revenue sources (existing and potential), regardless of which department was charged with collection responsibilities. Both staff groups, but especially the Budget Bureau, had a strong training role, and were used to develop administrative and senior management candidates for eventual placement in line departments. Many Directors of Administration, Assistant and Associate Deputy Ministers, and Deputy Ministers in place in 1980, for example, had spent from one to three years on average working as Budget Bureau analysts in the 1970's.

The Saskatchewan Treasury Board operation was the key responsibility centre for all program and policy management decisions affecting expenditures and revenues. Cabinet's involvement as a whole was limited primarily to two major Cabinet sessions: a planning session in October, from which broad or general themes and priorities were established for the upcoming budget (eg. job creation, capital project work, etc.); and a January Cabinet finalization session for the detailed budget as prepared by Treasury Board and its staff. Other than these two major review sessions, Cabinet's involvement in the budget preparation and implementation process was limited to a sanctioning of the budget framework as developed by Treasury Board and its staff in May.

In general, the focus on the Saskatchewan Treasury Board as the Cabinet-delegated responsibility centre for all program and policy management decisions ensured a consistency in the decision-making process that was integral in providing stability in the overall operation of government.

The current Saskatchewan government's 1983 to 1985 efforts to restrain expenditures have concentrated on internal economy measures such as a freeze in the filling of vacant positions, sales of government property and equipment, and across-the-board cuts in equipment, supplies, and travel. Additional actions included an attractive early retirement program and privatization of services (e.g. court reporting and highways maintenance).

The expenditure management system itself was modified to make budget control more centralized, and a Management Committee was established to oversee the definition of specific expenditure reduction measures. This Committee was set up as a sub-committee of Treasury Board but appears to have had fairly significant decision-making authority independent of Treasury Board.

Externally, a key part of the government's approach was to package the "redistribution" of spending as a multi-year increase to the health, education, manpower and job creation sectors. In its highly publicized "Partnership for Progress" effort, the government directly tied spending increases to complementary revenue increases.

In general, then, the Saskatchewan expenditure reduction efforts have been relatively moderate, particularly when compared to the British Columbia experience.

3. <u>British Columbia Government</u>

The newly elected Social Credit Government in B.C. in 1983 embarked on a major expenditure reduction, a key component of which was the termination of provincial government employees "without cause" to achieve a 25 percent reduction of full-time positions over two years. The reductions in programs and services included the elimination of rent controls, suspension of local land-use controls, termination of the human rights commission, and greatly reduced spending in the areas of handicapped, child abuse, education, welfare, and low income housing programs. In addition, hospital user fees were increased. Overall spending went up despite the reductions, primarily due to the channelling of funding to major developments such as northeast coal development and Expo '86.

Two features of the British Columbia effort are worthy of special attention: the wholesale termination of public sector employees (both direct and indirect; the latter included more than one thousand school teachers), and the speed with which the reductions were effected. The former led to the greatest immediate negative reaction across the province and across Canada. The latter resulted in the inability of the government to oversee the reductions from any rational priority-setting perspective. The only monitoring possible was a non-analytical recording of numbers as cuts were put in place. In other words, to make such a significant range of cuts in such a short period of time was possible only if arbitrary targets were established across the whole of government and departments were instructed to meet those targets without a serious review of the potential short or long-term consequences. The long-term consequences still remain to be defined and will have their impact over time. However, it is clear from the B.C. experience that governments can take such extreme actions and survive electorally, at least in British Columbia. The financial consequences of the actions have yet to be evaluated, but it will be interesting at some point to consider the effect of the reduced number of public servants, the increased number of services contracted out, and the overall reduction in the number of support services available to people from the provincial government.

4. Quebec Government

The Quebec Government underwent some major operational changes under Premier Levesque in the early 1980's, centered on the need for a Parti Quebecois government to prove itself capable of governing efficiently and effectively. In describing his approach to public administration in general and during that period in particular, the former Premier identifies a number of essential features of the process:

a. the need for a team approach by the elected and appointed officials to getting anything relevant accomplished; in effect, the politician as architect and public servant as engineer of the government's plans must work together, loyal to each other's role, and recognizing their interdependence;

b. the necessary permanence of the public service, at all levels of the organization, to complement and compensate for the impermanence of the members of the elected body;

c. the need for a basic integrity in the government's internal and external operations, a factor which is linked directly to the need for government to be essentially transparent, without secrets and dark corners of hidden agendas and information; and

d. the importance of keeping government's size limited to a core of essentials, with a solid resistance to the constant pressures for growth.

On the latter point, there is a widely held view that the Quebec public service has grown unnecessarily large, and is "bloated" compared to other provincial government operations.

Quebec some years ago undertook to reduce the size of government expenditures with a direct attack on what were considered to be very high public sector salaries. Rather than use the B.C. approach of reducing the number of individuals on the direct public service payroll, Quebec opted to reduce the size of the payroll, forcing a major wage reduction in the order of 30% on its government workers.

The potential acceptability of the Quebec option in other jurisdictions is variable, dependent in large part on the relative position and perception of public sector salaries. In the Manitoba context, given the current government's generally cooperative and supportive approach to dealing with all unions (including the public sector), such an arbitrary measure would be seriously problematic to implement. In addition, such a measure could only be effective if it encompassed workers in the health care and education sectors as well as the public service proper.

C. Summary and Implications

From a Manitoba perspective there are a number of useful lessons in the above experiences. The radical options of dramatic reductions in civil service size as in British Columbia or pay levels as in Quebec are instructive only in that they should be avoided in Manitoba. However the following points are worthy of consideration:

* The primacy of the Ontario Management Board is an important and applicable finding as noted previously.

* As well, the general Ontario thrust is certainly worthy of a further review to determine its applicability in the Manitoba context. In particular, the multi-year nature of the planning and approval process and the recognition of associated operating cost implications should be priorities in the Manitoba approach to capital expenditure management.

* The applicability of the features of the Saskatchewan Treasury Board model is also worthy of closer consideration. The strengthening of the Manitoba Treasury Board system along the lines of the historical Saskatchewan model could result in significant improvements in a relatively short period of time.

* Saskatchewan's recent restraint measures are less useful as models. Their applicability in Manitoba for future budget years is doubtful, especially considering their comparability to the 1983-85 restraint measures already undertaken in this province.

* From a Manitoba perspective, probably the most negative features of the B.C. restraint exercise were the absence of any meaningful consultation with the people to be affected and the placing of the major burden of restraint on social programs. In general, such an approach to restraint would be an unwelcome mechanism in the Manitoba context of consensus, consultation, and caution.

IV. ASSESSMENT OF THE CURRENT EXPENDITURE MANAGEMENT SYSTEM

A. Effectiveness in Meeting Objectives

The definition of an organization's expenditure management system goes well beyond the process of making decisions to spend. Inherent in the managing of expenditures is the recognition of the revenue context in which spending decisions can be made, the linking of those decisions to the organization's objectives and priorities, and follow-through after expenditures are made to ensure that the results of expenditures are as intended.

In undertaking an assessment of the expenditure management system in place in the Manitoba Government, a detailed comparative analysis of Manitoba versus other jurisdictions was not possible. However, given the information that has been available for review, the impression is that in the spectrum of the Canadian experiences at the provincial and federal level Manitoba is generally no better or worse than its governmental counterparts.

In assessing the effectiveness of the expenditure management system in Manitoba, it is necessary to first of all identify the fundamental principles against which current operations must be measured. The relevant principles are those associated with the basic structure of government, which hinges on an interdependent relationship between the Cabinet and senior managers. This relationship is outlined in some detail in an earlier section of the report.

When measured against the principles of an ideal Cabinet operation outlined earlier, Manitoba's current Cabinet operations could be strengthened on a number of fronts. The major concerns are the need for more complete consistency in decisions which are taken, the need for more consistent delegation of tasks to Cabinet committees and senior management, the need for more effective interface opportunities between senior managers and Cabinet, the need for a more adequate base of information for Cabinet decisions (i.e. identification of the administrative base-line considerations), and the need for more clarity in the government's timetable and agenda.

With respect to the senior management component, there are a number of concerns, the most serious of which is the inability of these individuals to find sufficient time to focus on results because of other demands. Their ability to make long-term plans is hampered because of the lack of clarity in the framework of overall priorities.

In assessing the Manitoba central agency organization, it is essential to note several key strengths. The level of central agency staff capacity, their depth of knowledge and commitment, is a significant strength. The financial information available to departmental and central agency staff has been improved and represents an important resource. The improvements in the quality of central agency staff have been mirrored in more versatile and managerially oriented line program managers. The areas of weakness identified in this report exclude analytical and managerial competence on the grounds that they are present in a significant quantity among the government's employees.

In reviewing the three major Cabinet committees, it is clear that the structure and operation of the staff support function require recognition from Cabinet as to their priority within the system, their mandate, and their potential contribution to a more effective decision-making process.

In assessing the specific issues related to the expenditure management system in Manitoba, the principle findings were as follows:

* While the points raised in the Working Group discussions covered a broad range of experiences and perspectives, a common view was clear: the current system could be more effective and could better serve both the elected and appointed participants.

* A critical gap in the system at present is the lack of sufficient linkage between government policy priorities and program expenditure decisions, with major decisions in both areas being taken outside of the relevant context.

* Expenditure decisions too frequently lack finality and are subject to mid-year changes without facing the normal competition for limited resources.

* The one-year time frame for the estimates process is an inappropriate basis for effective budgeting for government programs, particularly given the long-term financial implications of many individual decisions.

* The current program base must be reduced in order to ensure that the government can maintain necessary expenditures in its core priority areas. Reduction of the program base will be a difficult and long-term process if it is to be effective in reducing the size and growth of expenditure commitments.

* The current Treasury Board operation needs to be overhauled to move its focus to issues of significance and to fulfill its overview policy role (i.e. policy direction driving expenditure decisions) in the government-wide context.

* The current organizational structures within the provincial government are not sufficient for the size and complexity of dollars spent and programs being delivered.

* An excessive tendency to centralize controls and impose standard measures has removed responsibility and flexibility from managers, effectively releasing them from making management judgement calls for which they should be considered accountable.

* The Cabinet policy committees have not yet fulfilled their full potential to provide a valuable forum for establishing detailed policy direction and ensuring its integration into expenditure decisions of the government.

* The full extent of expenditure commitments are not consistently accounted for in packaging the annual estimates, particularly externally, so that internally there are mixed messages across and through the various levels of officials. This is particularly a problem when new initiatives with relatively small first year requirements are involved.

B. The Need for Reform

A number of issues have been identified as requiring consideration in reviewing options for improving the current expenditure management system:

1. Framework for Linking Policy Priorities to Expenditure Decisions

The Working Group has indicated that the linkage of policy priorities to expenditure decisions is of the highest possible priority, and a workable framework is required to ensure this necessary linkage. The critical points of the framework are as follows:

a. the dominance of Treasury Board as the senior Cabinet Committee;

b. Treasury Board fulfilling a policy management role;

c. the overview role of Cabinet as a whole;

d. the use of the two major policy committees to provide sectoral policy advice to Treasury Board and subsequently to Cabinet.

2. The Ministerial - Official Interface

The relationship between Ministers and their officials has been raised frequently as a substantive issue during the course of the review. The quality of this relationship directly affects the linkage between the political and management functions of government. What is required is a high degree of trust on the part of both Cabinet and the senior managers, each side with real respect for the skills and advice the other side brings to the process.

The two groups must be working from a common set of objectives for the direction of policies and programs, with their ongoing relationship providing the driving force for meeting those objectives.

The relationship must include sufficient face-to-face encounters to ensure adequate communication and discussion of priorities, objectives, and governmental directions. The forum for these face-to-face encounters is most usefully provided in a structured environment such as a Treasury Board hearing (eg. on specific and significant departmental requests related to program or policy management).

3. A Renewed Treasury Board

The operation of Treasury Board should undergo significant change as soon as possible to reinforce its role as the government's committee on management. The fundamental thrust will be to have the Treasury Board consider all matters of substance related to the management of the government's fiscal resources, including both revenues and expenditures.

4. The Policy Committees of Cabinet

In reviewing the existing and potential roles of the Economic Resource Investment Committee (ERIC) and Social Resource Committee, it is essential to appreciate the fundamental differences in their current individual mandates. ERIC was formed primarily to perform a group Ministerial overview role on a range of major economic development thrusts and ensure that individual projects proceeded in a manner consistent with the government's economic priorities. The addition of the Jobs Fund package to the ERIC mandate was a logical fit with its other economic development thrusts, and provides a delegated expenditure allocation role for the committee.

The Social Resources Committee was established in 1983 to review on an ongoing basis overall policy in the health, education, and social policy fields, and on a detailed basis to review major program areas (eg. hospitals, corrections, mental health). In addition, the SRC was given a mandate to recommend to Cabinet "expenditure repriorization within the departments of Health, Education, Community Services and Corrections." This "repriorization" was intended to reallocate funds from one purpose to another but within the total social spending "envelope" approved when the departments' budgets were set for the year.

The reallocation of globally approved resources has to date not been a focus of SRC activity. Rather, the committee's discussions have tended to lead to incremental mid-year expenditure Cabinet decisions arising from new policy thrusts, proposed by Departments and reviewed and approved by SRC.

In general, then, the differences between the operations of the two committees has been fairly substantial, resulting in large part from the more narrow and specific project-oriented nature of the ERIC mandate and the much broader and more subjective tasks assigned to SRC.

Given the current and potential impact of SRC and ERIC directions and decisions on expenditure issues, it may be appropriate to clarify a distinct and strong role for them in the expenditure management system.

Clearly the choice here is to allow the two committees either to make actual expenditure decisions or to be limited to providing advice to Treasury Board on decisions, but generally not to perform both advisory and decision-making functions.

Another alternative would be to combine the two Committees with the existing Strategy Committee of Cabinet and mandate it to set the overall governmental priority framework.

If the existing committees are to make actual expenditure decisions, they could not reasonably do so without a specific resource framework (i.e. global expenditure limitation) established by Treasury Board and confirmed by Cabinet. Therefore, any expenditure decisions made by each committee would involve allocations between programs contained within their specific social or economic mandate and consistent with an articulated "bottom-line" for that array of expenditures. A problem inherent in this

arrangement is that the detailed competition for resources would be limited to social program versus social program and economic program versus economic program. This would be an unnatural skewing of what should be a distinct competition of all proposals for a portion of the limited resources available. Only with the broad-based competition will the government's overall priorities be effectively established and some measure of equity be served.

If the SRC and ERIC are utilized on an advisory rather than a decision-making basis in the expenditure management system, their role would be much more easily defined, established and improved over time. Through SRC and ERIC establishment of clear and detailed expenditure priorities for their individual sectors, Treasury Board's review of expenditure options can be supplemented by a crucial policy input from committees which focus ongoing attention to policy priorities for the short and long-term -- an overview function which Treasury Board has neither the time nor resources to take on itself in any meaningful way.

In summary, it is the responsibility of government to ensure that its review of options be undertaken in the broader context rather than a narrow context. An integral factor in this principle of operation is to force the competition of all expenditure options in a balanced and comprehensive setting. Given that, in essence, a dollar spent is a policy made, the management of expenditure decisions in a clearly articulated policy context should be considered a mandatory feature of government operations. Effective use of the policy committees may enhance this principle.

5. Evaluation of Program Performance

In recent years, growing attention has centered on the results of government expenditures and their effectiveness in reaching established objectives. This assessment of performance goes well beyond strictly financial accounting issues to the broader issues of impact on target group, meeting of set goals, relevance in the current governmental context, and the full range of issues related to managing available resources, including the traditional evaluation of the economy, efficiency, and effectiveness.

Program evaluations in the Manitoba Government context have been limited primarily to ad hoc reviews prompted by specific problem identification and focussing on financial accounting issues. Other program evaluations are undertaken in the context of federal-provincial agreement requirements, where the evaluation tends to be contracted out to private consulting firms.

It is an essential responsibility of program managers to constantly evaluate their programs and ensure that an information base is readily available for an objective review of the programs to be undertaken at any point. However, this dimension of management responsibility has generally not been encouraged or reinforced in the Manitoba Government. To build some capacity in this key area, some initial work could be undertaken in the central agencies, specifically the Treasury Board operation. The timing for such a development is highly appropriate given the increased need to consider options for reducing the current base of programs.

One model worth consideration is the former Bureau of Management Improvement which operated for some years in Saskatchewan. The Bureau contained a staff with a wide range of general and technical expertise and experience who undertook projects at the request of Treasury Board or at the request of Departments. The former resulted in reports which were channelled into the central agency Treasury Board operations. The latter resulted in reports which became the property of the individual Departments. Some excellent results were achieved; however, in a number of instances no action resulted from projects undertaken.

A Bureau of Management Improvement or Program Evaluation Unit attached to Treasury Board could be used to undertake detailed program evaluation work or a broader area of reviews. Establishing a broader set of parameters might be more appropriate initially to signal to Departments the emphasis on the full range of management issues, including program performance. Attention would be required to ensure a high degree of advance commitment to implementing the results of evaluations. A necessary ingredient for the success of program evaluation work is Ministerial commitment to implement findings. This will require effort to secure in each and every instance.

6. The Loan/Budgetary Conflict

There is currently a distinct difference in approach to committing Loan and budgetary expenditures.

What is clear from discussions to this point is that Loan Act expenditures are not subjected to as much review as budgetary expenditures, do not compete for resources as rigorously as budgetary expenditure proposals do, and are not sufficiently appreciated for their long-term impact on the province's fiscal situation. With one exception the solutions to all of these problems are relatively straightforward and mechanical. The current attitude about Loan Act expenditures (i.e. "they don't count in the tally of the deficit and effectively don't impose costs on the government to the degree budgetary expenditures do") will be a greater challenge, particularly given how deeply this attitude has permeated the overall government system.

In the case of Crown corporate loan authority, a more formal policy for taking loan losses into the Province's accounts is necessary.

7. Capital Expenditures

Governments commit a great portion of their expenditures annually to purposes which increase the worth of the economic assets contained within the province's or nation's boundaries. This contribution to the base of tangible assets, from which the population gains significant benefit, represents an investment in the future and should be recognized as such. Governments have generally been unsuccessful at defining public expenditures for capital purposes in a fashion which is understood and appreciated by the taxpaying public. The Manitoba Government is in a position to provide leadership in this area, and should consider appropriate revisions to its current definition of capital expenditures to most realistically portray the magnitude of its contribution to the province's assets. At a minimum, the definition should include the following:

a. all of the costs of acquisition and construction by contract of buildings and engineered structures, including property costs, legal costs, and the cost of quality control and field supervision activities.

b. all grants or subsidies transferred to persons, businesses, non-commercial institutions and other government bodies for use in capital investment.

c. all loans or advances disbursed to persons, businesses, non-commercial institutions and other government bodies for use in capital investment.

d. all direct government expenditures on salaries, wages, goods and services used in the construction of capital assets (i.e. work performed by the provincial government's own labour forces).

e. all direct government expenditures for supplies and equipment which qualify as capital asset acquisitions.

In general, a provincial capital expenditure is an investment in the economic system of the province through the extension of the life of existing assets beyond original expectations, an increase in the capacity or output of existing assets, an increase in the efficiency of existing assets, and the acquisition or construction of new assets. In the public sector, provincial capital expenditures enhance the public services which are provided. In the private sector, provincial capital expenditures enhance the economic activities in the province.

Given the vast array of government-funded capital projects (most of them relatively minor) underway at any given point, any effective planning, approval, and monitoring process for capital projects should allow sufficient decentralization of decision-making to managers to prevent the Ministerially-directed portion of the system being bogged down in handling what are basically inconsequential details. For example, in Ontario, the decentralized authority limit is for purchases of capital goods or services with a value less than $50,000 (unless bulk purchasing exceeds that limit). In Alberta, the decentralized capital authority approval level for hospital-related projects is $1 million; projects requiring provincial support of less than that amount are considered "minor" construction.

Professor Clarence Barber, in his paper entitled "On the Form and Presentation of the Government of Manitoba's Budget", addressed a number of issues related to the government's accounting procedures for its capital budget. He recommended that the government identify capital expenditures separately and also prepare estimates (on a current replacement cost basis) of depreciation on the government's existing capital stock and designate an amount equal to the depreciation amount as a current expenditure.

In a 1985 paper published by the C.D. Howe Institute, Professor D.A.L. Auld addressed a number of controversial issues related to the use of a capital budget designation in the public sector. He focussed on the need to provide a more logical and rational base for government's financing decisions. He expressed the view that discussions of public sector deficits usually fail to fully or even partially recognize the role governments play in the development of capital stock and the assets essential to the support and promotion of technological progress specifically and economic growth generally. Auld makes the argument, quite correctly, that the private sector couldn't function effectively without the provision of public goods and services made available by public capital expenditures. He also addresses the trend in keeping the definition of capital expenditure rather narrow, noting that the investment in human asset capital is generally excluded despite its clear contribution to the long-term economic base of a country. Despite the difficulty in including human asset investments (such as education and training) in a capital expenditure definition, this is another area which the Manitoba Government should consider further in its revisions to capital budgeting definitions and procedures.

8. Envelope System

Given the existing structure in place of the two major policy Committees of Cabinet, it may be desirable to involve the SRC and ERIC more directly in expenditure management decisions. One mechanism for such an approach would be to divide the government's expenditures into two or more "envelopes" (similar to the federal government's expenditure envelopes) and set dollar limits for each, with the policy committees delegated authority to reallocate funding as necessary within the envelopes during the fiscal year. The implications of this option were discussed earlier in the comments under "4" ("the Policy Committees of Cabinet"). However, the structuring of the envelope system was not described, so what follows is an outline of the federal government system on which the proposal is based.

The "envelope" in the Ottawa context is an authorized expenditure limit comprised of two elements:

a. an operational planning level, consisting of the forecast cost of existing programs in the approved departmental operational plans and an operating reserve level (determined by Treasury Board) established to meet the cost of any overruns associated with the programs.

b. a policy reserve for new or enriched programs, which can be supplemented by reductions or eliminations of existing programs.

The envelope is managed by a designated Policy Committee of Cabinet. However, any proposals involving cost adjustments to current programs require Treasury Board review. Limitations on adjustments to the envelope are defined in detail in the approved operating procedures for the envelope system.

9. Multi-Year Budgeting

There are two issues associated with multi-year budgeting proposals. First, there is the internal process of departments preparing estimates on the basis of a multi-year period. Given the long-term significance of funding decisions, the budgeting plans could be undertaken within a multi-year framework. Departments could identify expenditure projections for at least two years beyond the request year, incorporating this information on a detailed, program-by-program basis in their estimates submissions. The implementation of a multi-year budgeting approach along these lines has already been commenced within the Manitoba Government.

The second issue here is the public release of revenue and expenditure estimates on a multi-year basis, as has been proposed by the Provincial Auditor. The Working Group's review of this issue considered the fact that such an arrangement would give the government much less flexibility in budgetting and packaging its fiscal plans. For example, discussion might focus too much on the variances between actual versus projected revenues and expenditures rather than on actual year over year performance. If the government did go ahead with public multi-year revenue and expenditure projections, it could only be done effectively if implemented gradually over a period of years.

10. Long-Term Reduction Exercise

Following the preliminary work done by the Working Group on the assumptions, framework, motivational factors, and guidelines for this important exercise, further discussions at Cabinet have addressed the various implementation issues. This effort is seen by the Working Group as the integral component of any effective reductions in the program expenditure base. Probably the most important feature of the long-term expenditure reduction exercise is the flexibility to be provided to senior managers in defining areas for potential reduction.

11. The Funding Reserve

Despite the continuing limitations of available resources, government clearly could make use of a funding reserve of some size to address mid-year unforeseen expenditure priorities. As an option for improving the expenditure management system, the funding reserve system has merit but it is unlikely that with the current restraints required for the expenditure base, there will be enough flexibility to set aside any uncommitted monies in the next budget.

12. Funding of External Agencies

One of the issues raised in the Working Group's discussions is the significant level of government expenditures which are transferred to third parties and the corresponding need to ensure that those expenditures are made effectively.

Among the major transfers to third parties are:

- the payments to physicians and hospitals through The Manitoba Health Services Commission ($863.5 million);
- the payments to universities through The Universities Grants Commission ($161.8 million);
- the transfers to The City of Winnipeg and other municipal governments ($71.1 million);
- transfers to various Community Service and Child Welfare Agencies ($92.6 million);
- education support program ($401.4 million)

In total, transfers account for in excess of 40% of total Provincial spending.

Ensuring efficiency and effectiveness within external agencies is normally the responsibility of the government agency -- Manitoba Health Services Commission, University Grants Commission, transferring Departments -- through which payments are made. Many of these 'watchdog' agencies were established in an era when the fiscal situation was less restrictive and other aspects dominated. It is unclear that 'watchdog' or 'buffer' agencies can perform the new roles thrust upon them by fiscal realities.

The difficulties encountered tend to fall into a few distinct categories:

1. How to limit expenditures in external agencies; the unending issue of "guidelines", deficits, volume increases, and funding formulas.

2. How to ensure parallel objectives in external agencies with independent boards.

3. How to create efficiencies or incentives for efficient behaviour.

These types of problems are almost a certainty with arms-length agencies. The means of improving the effectiveness of transfers lies in the direction of clearer communication; funding formulas with incentives; and a determination on the part of Provincial decision-makers to resolve divergent objectives in as direct a fashion as possible.

One approach worthy of consideration for broader application is the Budget Carry-Over Incentive Program of the University of Manitoba. This budgetary practice involves giving new year credits for (previous) year-end cost avoidances and has been emulated in other Canadian universities as a useful financial management tool.

13. <u>Human Resources</u>

A number of human resource issues have been raised in the context of this review. The major point raised is the need for a strong staff support function to the three major Cabinet Committees: Treasury Board, E.R.I.C., and S.R.C. The general consensus is that these central agency staff units require strengthening, both in number and range of analytical capability brought to bear on issues.

A second concern raised with the Working Group is a perception that there has been a rapid growth in middle management staff positions in the Manitoba Government. Both the growth in numbers and the absolute number of middle management positions has been examined and the following data obtained.

EMPLOYEE CLASS ANALYSIS - HISTORICAL STATISTICS

SENIOR OFFICER SERIES

	March 21/81	March 20/82	March 20/83	March 31/84	March 30/85	March 28/86
Senior Officer 1	109	113	114	106	100	101
Senior Officer 2	45	46	51	57	59	64
Senior Officer 3	37	39	42	43	43	45
Senior Officer 4	17	14	17	16	15	17
Senior Officer 5	8	8	8	9	12	11
Senior Officer 6	20	26	26	26	24	17
Senior Officer 7	-	-	-	-	-	6
Senior Officer Uncl.	2	1	1	2	5	7
Totals	238	247	259	259	258	268
Total Civil Service	16,270	16,773	16,494	17,059	17,406	17,808
% of Civil Service in Senior Officer Category	1.46%	1.47%	1.57%	1.52%	1.48%	1.50%

Source: Employee Classification Analysis Report (MEIS)

Compiled: July, 1986

As noted, there has been an increase of 30 positions or 12.6% in the Senior Officer classification during the past 5 years. This increase is not dramatic and has its causal roots in the creation of several new departments since 1981 (Urban Affairs; Cooperative Development; Industry, Trade, and Technology;) as well as the initiation of a number of new programs. The increase is also consistent with overall growth in the civil service over the same period of time.

A number of private sector organizations have been trimming if not eliminating whole layers of middle management personnel. In some circumstances this improves communication between senior management and program delivery. This area is worthy of further study not primarily because of rapid growth but because of the experience of improved effectiveness in other organizations. Consolidation of departments and programs would be one means of reducing middle management staffing levels.

Training and re-training of individuals currently employed by the Province will be an essential ingredient of enhanced flexibility and productivity in future years. It should be a priority.

14. Consolidation of Departments

One recurrent issue raised with the Working Group in the area of "achievable efficiencies" is the consolidation of governmental program activities into a smaller number of departments. There are undoubtedly some purely administrative economies to be achieved in a reduced number of departments. Fewer Deputy Ministers and reduced administrative support units are among the benefits cited.

More specific suggestions have included the amalgamation of Cooperative Development and Business Development and Tourism with Industry, Trade and Technology to create one, large economic development department, or the re-unification of Health, Community Services and Economic Security. As well, the linkage of Urban and Municipal Affairs is a familiar proposal.

All of these suggestions miss the fundamental rationale for departmental proliferation. That rationale has never been rooted in administrative efficiencies but rather in the broader political realities. The political reality of relations with the City of Winnipeg with 60% of the Province's population is the perceived need for an Urban Affairs Minister and Department. The tourism industry, as it has become an effective public lobby group, has created a need for a Tourism Minister and Department.

In other instances it has been the dominance of a public issue -- the energy crisis -- hence a Department of Energy and Mines or the environmental movement -- hence a Department of the Environment.

Balancing the potential savings from administrative economies against the political demands of various elements within the provincial community for specific departments is, in the opinion of this review, a task best left to the Premier and Cabinet.

V. THE CONSULTATION/PARTICIPATION PROCESS

Of enormous importance to a successful expenditure management system is its legitimacy within the organization and the credibility of its results in the larger community. A critical determinant of these outcomes is the nature and quality of information, consultation and participation afforded by the process to all interested parties.

One Deputy Minister in commenting on an earlier draft of this report noted accurately, "With regard to external consultation I do not believe that this point is stressed enough. I believe a long term process is required for ensuring the general public sees the need for and buys in to program restrictions or reductions. I cannot emphasize enough that I believe any budget reduction exercise that does not have as a pre-condition the preparation of the public for such an exercise, is in my opinion, bound for failure".

A. Internal

Governments face a unique dilemma in the task of expenditure management and consultation. To maintain confidence in the economy and in the future governments frequently stress positive news, particularly positive economic news. This activity, conveyed to public servants by the media, undercuts efforts to convince the civil service that expenditure reduction is an urgent or serious task. The Manitoba Government has initiated 10 or more 'restraint' or expenditure management programs since 1976. Each one has been billed as 'serious' and yet their collective impact has been to engender a certain cynicism among public servants.

Public reactions to specific reductions are often noted to produce reversals of direction when program reductions are the focus of attention. While this is an essential reality in a democratic society, it further undermines the perceived determination to reduce spending. The task of how to convey a tough internal message on the nature of the fiscal circumstance without generating a difficult public debate is not simple. However, the devotion of considerable time to direct meetings internally - with line managers as well as Deputy Ministers and with workers and their union representatives - would be extremely useful. The delivery of a precise message in a direct fashion has a great deal to commend it in contrast to the trickle-down of media reports.

Consistent expectations of the public service and clarity in the message delivered will go a considerable distance towards resolving the existing cynicism. Simultaneous requests to propose new program thrusts while reducing expenditures risk reinforcing that same cynicism.

The Government has taken some tentative and successful steps along the road of greater worker participation in decision-making. This is a direction which has greatly aided the Japanese economy and is gaining a large following on this continent. A more aggressive pursuit of this activity could prove of enormous value in garnering support for and understanding of the overall policy directions of the government and assistance in meeting the expenditure management challenge.

In particular, a tiered system of consultation should be considered. This would enable participation by workers at several levels of the decision-making process. Beginning with discussions at Joint Council between Ministers and representatives of the Manitoba Government Employees Association there should be a continuing dialogue on specific expenditure management issues.

B. External

A more aggressive and sustained effort of consultation with the larger community has demonstrated its considerable worth over the past five years. This consultation will be an essential determinant in the successful acceptance of these recommendations or similar government actions by the larger Manitoba community. Various groupings and sectors within Manitoba need to be involved and informed to better understand the overall fiscal constraints faced by the Province. The Minister of Finance will need the full involvement of other Ministers in consultations to ensure the most consistent message and to reinforce the overall message.

VI. THE SUBSIDY ISSUE

For a wide variety of reasons governments subsidize types of business activities within the economy. These subsidies may take a bewildering array of forms - from direct grants - to forgiveable loans - to subsidized interest rates - to providing services at less than cost - to tax expenditures as discussed in the companion report on tax reform. Assistance may be short-term and in response to a particular crisis or problem affecting one sector or industry. It may be more broadly long-term with an objective of creating or preserving an industry. Subsidy may be accidental as a result of the cost-recovery history or lack thereof for a particular governmental activity. No sweeping judgement or value can be accurately rendered on this range of activities. The cataloguing that follows represents an attempt to quantify the costs of various subsidies to business grouped under the three broad categories of subsidies:

- Subsidies to Business Regardless of Size
- Subsidies to Small Business
- Subsidies to Farmers

The differentiation between small and large business is difficult to draw with precision. Where subsidies are limited to small business the eligibility is noted. Subsidies of a tax expenditure nature are noted as (T); those of a program expenditure nature as (P) and others as (O).

A.	Subsidies to Business Regardless of Size	COST IN 1986/87 (Millions of $)
1.	Development Agreements (P)	$12.0
2.	Jobs and Training Program (P)	10.6
3.	Mineral Development Agreement (some aspects) (P)	1.69
4.	Securities Commission (50% cost-recovery principle) (O)	
5.	Infotech Program (P)	2.22
6.	Housing Programs (P)	unknown
7.	CareerStart (P)	8.0
8.	Grads in Business (P)	0.7

9.	Business CHEC (P)	.2
10.	Manufacturing Adaptation Program (P)	1.22
B.	**Subsidies to Small Business**	
1.	Exemption from Health and Education Levy on first $50,000 of payroll (T)	$ 7.0
2.	Venture Capital (P)	5.0
3.	Lower Tax Rate for Small Business (T)	14.4
4.	Small Business Program (Core Area Initiative) (P)	0.55
5.	Tourism Agreements (some aspects) (P)	2.56
6.	Interest Forgiveness (Credit Unions/Caisse Populaire) (O)	4.38
7.	Special ARDA	0.9
8.	Communities Economic Development Fund	4.0
9.	Corporation Capital Tax (exemption under $1M)	13.0
10.	Youth Business Start	0.3
11.	Film Support Program	0.75
12.	Technology Commercialization	1.6
C.	**Subsidies to Farmers**	

1. **Personal Income Tax:**

Under the Income Tax Act, farmers benefit from a significant number of general and special incentives and preferences, some of which are listed below:

a. Exclusions from Gross Income:

- o unreported self-consumption of saleable goods (for which production expenses are claimed);
- o personal use of deducted items (portion of house/car, trucks, all-terrain vehicles, etc.);
- o personal consumption goods acquired through barter of saleable goods (for which production expenses are claimed);
- o some government subsidies;
- o accrued but unrealized income from sales (cash vs. accrual accounting).

b. Deductions from Gross Income:

- o livestock inventory adjustments;
- o depreciation of producer quotas;
- o immediate deduction of farmland improvements (increased land value is a capital gain);
- o deduction of carrying charges on farmland (and business portion of home, etc.);
- o accelerated capital cost allowances on various classes of assets.

c. Other Deductions/Credits:

- o immediate $500,000 exemption of capital gains from sale of farmland;
- o ten-year reserves on installment sales of farmland to children;
- o option to defer capital gains on farms sold within families;
- o special provisions under forward averaging mechanism;
- o five-year block averaging;
- o federal Business Investment Tax Credit (gradually being phased-out);
- o exemption on quarterly installment payments.

2. Levy for Health and Post-Secondary Education: The $50,000 exemption generally covers all except the largest, incorporated enterprises. (T)

3. **Retail Sales Tax (RST)**: All farm equipment and supplies used exclusively in farming are exempt. (T)

4. **Fuel Taxes**: The Manitoba Government does not collect any taxes on marked fuel for farm use. (T)

5. **Corporation Capital Tax**: Family farm corporations are exempt. (T)

6. **Manitoba Agricultural Credit Corporation - Low Interest Loans (P).** Several programs offered by M.A.C.C. provide low interest loans to farmers.

7. **Beef Stabilization Program** (P)

8. **Hog Stabilization Program** (P)

One aspect of the subsidies to business issue is the competition between provinces dimension. Interprovincial competition for new plants and "footloose" industries has deepened the level of subsidies available to business across Canada. Unfortunately, only strong action by the Federal Government, action which is unlikely to be taken, could limit the competition between jurisdictions based on subsidies.

D. Subsidized Services

In the companion report on taxation the fees and charges for government services are catalogued and recommendations made for their improved management. In the recommendations section of this report several areas are noted as having potential for full cost-recovery. The full list of fees and charges is reproduced below.

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
1.	Sale of Hansard, Proceedings and Journals to the Public	Legislation	$10 individuals $40 corporations	$28,000
2.	For copies of Orders in Council	Executive Council	$.50 per page and $2 for certification	$100
3.	Cattle Brands	Agriculture	75% of Operating Costs ($5 - $10)	$6,000
4.	Milk and Cream Testers and Graders	Agriculture	$5 per annum	$1,700
5.	Cheese and Butter Makers Licenses	Agriculture	$20 per annum	$1,500
6.	Margarine Licenses	Agriculture	$50 Manufacture $5 Warehouse	$100
7.	Pasteurizer Operators and Milk Receivers	Agriculture	$5 Milk Receiver $20 Pasteurizer Operator	$1,300
8.	Poultry Dealers Licenses	Agriculture	$10 Main Branch $2 Other Branch	$300
9.	Turkey Flock Blood Testing	Agriculture	$20 per flock plus $.15 per bird over 100 birds	$5,000
10.	Poultry Flock Blood Testing	Agriculture	$11 annual plus $.05 per bird over 100 birds	$8,000
11.	Owner Sampler Dairy Herd Testing	Agriculture	$3 per cow per year	$14,600
12.	Feed Analysis	Agriculture	Grain $10 Mixed Feed $12 Roughage $12	$52,000
13.	Dairy Plant Licenses	Agriculture	$50	$2,300
14.	Diagnostic Fee	Agriculture	By Schedule Partly Subsidized	$215,500
15.	Artificial Insemination	Agriculture	$5 per A.I. Tech. $50 per Semen Dist. Agency	$300
16.	Veterinary Medicine	Agriculture	$25 per year $25 per exam for new members	$6,300
17.	Artificial Insemination Courses	Agriculture	Profitable Activity $285 average	$15,000
18.	Soil Testing Services	Agriculture	$16 per field sample (routine) $31.50 (complete) $16.50 (plant tissue)	$240,000
19.	Tree Pruners License	Agriculture	$20 Initial $2 Annual	$800
20.	Tree Pruners Course	Agriculture	$10	$1,400
21.	Farm Machinery Licenses	Agriculture	$10 Dealer $25 Vendor	$8,700
22.	Pesticide Dealers Licenses	Agriculture	$10	$11,000
23.	Lease Rentals Crown Land	Agriculture	Hay and Grazing $1.29 per Animal Unit Per Month Annual Cropping 25% of Crop Value	$1,144,000
24.	Grazing Permits Hay Permits	Agriculture	Grazing $1.29 per Animal Unit/Month Hay $3.90 per ton Native $5.85 per ton Tame	$7,700 $8,900
25.	Assignment Fee Crown Lands	Agriculture	$25 In Family Transfers $100 + $10 per parcel unit	$2,800
26.	Multi Media Extension Courses	Agriculture	$30 per registration	$50,000

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
27.	Sale of Publications	Agriculture	Varied	$14,000
28.	Central Drug Purchasing	Agriculture	Full Cost Recovery	$4,411,600
29.	Semen Purchases	Agriculture	Various Prices. Subsidy circa 10% or $10,000 per annum	$784,300
30.	Sale of Probes and Augers	Agriculture	$50 - $125 range	$2,500
31.	Farm Machinery Contract Forms	Agriculture	Act $3.25 Pad of 30 - $.90 New - $.35 each	$1,000
32.	Field Drainage	Agriculture	$30 per 1/4 section	$1,800
33.	Skill Development Courses	Agriculture	N.A.	$9,000
34.	Brandon Extension Centre Courses	Agriculture	$5.00	$7,200
	Room and Board - Agricultural Extension Centre	Agriculture	Various	$210,000
35.	Dugout Pumping	Agriculture	$300 - $350 per dugout	$116,700
36.	L.G.D. Portion of Administration Fee	Agriculture	$10 per disposition	$10,000
37.	Manitoba Markets Weekly Report	Agriculture	$30 per annum (Subsidized)	$900
38.	Court of Appeal Fees	Attorney General	Various	$18,000
39.	Court of Queen's Bench Fees	Attorney General	Various	$2,354,700
40.	Sheriffs and Bailiffs Fees	Attorney General	Various	$245,000
41.	Provincial Court Criminal Fines and Costs	Attorney General	Variable	$6,075,000
42.	Provincial Court Family/Youth Fines and Costs	Attorney General	Variable	$40,000
43.	Queen's Bench Fines and Costs	Attorney General	Variable	$90,000
44.	Legal Aid	Attorney General	Interest on Trust Accounts	$1,064,000
45.	Public Trustee Asset Management	Attorney General	3/5ths of 1 % subject to minimums	$800,600
46.	Public Trustee Capital Disbursements	Attorney General	2 1/2 % of Capital Disbursements	$77,300
47.	Public Trustee Capital Receipts	Attorney General	2 %	$195,300
48.	Public Trustee Escheats to the Crown	Attorney General	Various	$34,000
49.	Public Trustee Estate Inspectors	Attorney General	Various $10 - $30 per hour	$46,000
50.	Public Trustee Income Disbursements	Attorney General	2 1/2 %	$197,800
51.	Public Trustee Income Receipts	Attorney General	2 %	$372,100
52.	Public Trustee Income Tax Returns Preparation	Attorney General	$20 first 1/2 hour $20 per hour thereafter	$97,000

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
53.	Public Trustee Legal Fees	Attorney General	In accordance with Solicitors' Tariff	$100,000
54.	Office of the Chief Medical Examinar	Attorney General	$5 Judges Report $10 Post mortem and/or Medical Examiners Report	$1,905
55.	Security Guard and Investigators License Fees	Attorney General	Various	$32,000
56.	Liquor Control Commission Net Profits	M.L.C.C.	Various	$140,000,000
57.	Tourism Licensing Fees	Business Development and Tourism	$5 to $50	$11,300
58.	Vital Statistics	Community Services	Various	$1,000,000
59.	Manitoba Development Centre Residential Fees	Community Services	0 - $15.25 per diem	$174,000
60.	Meal Charges to Employees (Various Institutions)	Community Services	$1.70 per meal	$75,000
61.	Certificate of Incorporation Corporations Branch	Consumer and Corporate Affairs	$200	$435,000
62.	Amendment	Consumer and Corporate Affairs	$100	$73,000
63.	Registration	Consumer and Corporate Affairs	$200	$120,000
64.	Various Other Corporations Branch Fees	Consumer and Corporate Affairs	$.50 to $5	$130,000
65.	Annual Returns Corporations	Consumer and Corporate Affairs	$20	$619,000
66.	Business and Corporate Names	Consumer and Corporate Affairs	$5-$20	$208,000
67.	Insurance Act Fees	Consumer and Corporate Affairs	Various	$340,000
68.	Direct Sellers License Fees	Consumer and Corporate Affairs	$6, $18, $30	$51,800
69.	Vendor's License Fees	Consumer and Corporate Affairs	$65, $125, $250	$50,500
70.	Collection Agents License Fees	Consumer and Corporate Affairs	$125, $250	$8,000
71.	Bedding, Upholstered and Stuffed Article Permit Fees	Consumer and Corporate Affairs	$25, $50	$18,000
72.	Hearing Aid Certificate Fees	Consumer and Corporate Affairs	Various $20 to $160	$1,700
73.	Public Utilities Board Fees	Consumer and Corporate Affairs	Various Hourly Rates	$454,520
74.	Cemetery License	Consumer and Corporate Affairs	Initial $550 Renewal $275	$2,750
75.	Mausoleum License	Consumer and Corporate Affairs	Initial $550 Renewal $275	$825
76.	Columbarium License	Consumer and Corporate Affairs	$27.50	$193
77.	Crematory License	Consumer and Corporate Affairs	$110	$550
78.	Owners License to Sell	Consumer and Corporate Affairs	$27.50	$275
79.	Agents License to Sell	Consumer and Corporate Affairs	Initial $27.50 Transfer $5.50	$963

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
80.	License to Sell Prearranged Funeral Plans	Consumer and Corporate Affairs	$25.00	$650
81.	Appeals Under Highways Protection Act	Consumer and Corporate Affairs	$25.00 Heavily Subsidized	$375
82.	Real Estate Agents Act Fees	Consumer and Corporate Affairs	Various (50% cost-recovery)	$230,000
83.	Security Registrations	Consumer and Corporate Affairs	Various (50% cost-recovery)	$370,000
84.	Cooperative Credit Union Caisse Populaire Fees	Cooperative Development	Various	N.A.
85.	Classification Fees Film Classification Board	Culture, Heritage Recreation	Full Cost Recovery	$108,550
86.	License Fee Film Exchange	Culture, Heritage Recreation	Full Cost Recovery	$35,250
87.	Manitoba Gazette Sales Queens' Printer	Culture, Heritage Recreation	Full Cost Recovery	$218,400
88.	Reproduction Fees Provincial Archives	Culture, Heritage Recreation	Full Cost Recovery	$18,000
89.	Micrographics Services Provincial Archives	Culture, Heritage Recreation	Camera $22.50 per hour Processing $25.80 per hour Supplies 22% markup	$83,300
90.	Teacher Certification Fees	Education	Various	$18,500
91.	Student Record Fees	Education	Various	$5,000
92.	Correspondence Courses	Education	Below Cost Various	$311,300
93.	Tuition Fees Community Colleges	Education	Various	$3,009,500
94.	Student Loan Interest	Education	12.15 %	$192,000
95.	Education Data Services	Education	M.D.S. Rate	$1,500
96.	Miscellaneous Fees and Charges Community Colleges Parking, Bookstore, etc.	Education	Various	$3,679,300
97.	Tuition Fees - Stevenson Aviation and Technical Training Centre	Employment Services & Economic Security	$52.25 per day	$117,700
98.	Minerals Fees - 46 Separate Fees (23 mining, 23 quarrying)	Energy and Mines	Various	$1,755,300
99.	Petroleum Fees	Energy and Mines	Various	$3,255,500
100.	Sundry Fees	Energy and Mines	Various	$24,300
101.	Petroleum Royalties	Energy and Mines	Various	$4,416,100
102.	Environmental Testing Laboratory Testing Fees	Environment Workplace Health & Safety	$.95 per D.B.S.U. Subsidized	$600
103.	Sale of Inventory	Government Services	Weighted Average Cost	$110,000
104.	Land Value Appraisal Commission	Government Services	$200 per hour	$36,300
105.	Rental of Government Property	Government Services	Market Rates	$435,000

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
106.	Rental of Government Housing	Government Services	$40 - $250 per month	$10,400
107.	Parking Meters	Government Services	$.25 per 1/2 hour	$12,000
108.	Parking Offence Notices	Government Services	$3.00 Expired Meter $5.00 All other	$40,000
109.	Sale of Confiscated Firearms	Government Services	By Auction	$18,800
110.	Sale of Government Assets	Government Services	Fair Market Value	$136,800
111.	Sale of Surplus Material & Equipment	Government Services	By Auction	$112,000
112.	Sale of Surplus Fleet Vehicles	Government Services	By Auction	$1,033,300
113.	Sale of Surplus Office Equipment	Government Services	By Auction	$21,800
114	Dental Mechanics License & Renewal Fees	Health	$100 Initial ¯|-Denturists $100 Annual _| $25 Initial ¯| Dental Nurses, $10 Annual |-Hygenists, _| Technicians $10 Initial ¯|-Assistants $10 Annual _|	$6,000
115.	Employee Accomodation Meals	Health	Various	$110,000
116.	Per Diem Charges - Mental Health Centres	Health	$16.60 per diem (Feb 1/86)	$1,911,900
117.	Impaired Drivers Program Fee	Health	Second Offenders $125	$69,400
118.	Single Trip Certificates	Highways and Transportation	$.09 per kilometer	$439,200
119.	Taxicab Drivers Licenses and Business Licenses	Highways and Transportation	No Change since 1935 Various $1 to $20	$2,300
120.	Medical Review Committee License Suspension Appeal Board	Highways and Transportation	Fee $50 (L.S.A.B.) $35 (M.R.C.) Cost $61 per application	$200,000
121.	Airport Landing Fees	Highways and Transportation	Various	$165,000
122.	Plug-ins - Airports	Highways and Transportation	$2.20 (line power) $2.75 (diesel)	$4,000
123.	Aircraft Parking Fees	Highways and Transportation	Various	$13,000
124.	Vending Machines - Norway House Airport	Highways and Transportation	$10.60 per month x 2	$300
125.	Airport Terminal Storage Rental	Highways and Transportation	Office $9.15 psf Storage $1.90 psf	$24,500
126.	Various Rentals - Airports	Highways and Transportation	Various	$9,600
127.	C.F. Alfred Settee Ferry - Cross Lake	Highways and Transportation	$35/hour	$18,000
128.	Services to Public/Hydro, etc.	Highways and Transportation	100 % recovery	$1,350,500
129.	Tender Charge	Highways and Transportation	$5	$3,400

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
130.	Administration Fee Landlord Tenant Act	Housing	$50	$7,000
131.	Building Permit and Inspection Fees Mobile Homes	Labour	Various Partial Cost Recovery	$18,800
132.	Building Permit and Inspection Fees	Labour	Various Partial Cost Recovery	$238,800
133.	Amusement Rides Inspection Fee	Labour	$10 - $100	$3,100
134.	Electrical Inspectors	Labour	Various	$78,000
135.	Electricians Exams and Licenses	Labour	$10 - $40	$14,600
136.	Power Engineers Exams and Certificates	Labour	$2 - $40	$20,000
137.	Boiler and Elevator Inspections for Federal Government	Labour	$86.82 per unit	$47,100
138.	Gas and Oil Burner Act Exams Permits	Labour	Various	$138,900
139.	Elevator Permits	Labour	$20 - $100 50 % Cost Recovery	$140,000
140.	Elevator Alterations	Labour	$15 - $70 per drawing	$3,700
141.	Projectionists Exams and Licenses	Labour	$5 - $25	$500
142.	Plant Design Registration Inspector	Labour	$10 - $200	$45,000
143.	Boiler Inspections	Labour	$10 - $250	$247,500
144.	Fee for Testing and Re-Testing Welders	Labour	$5 - $41	$20,000
145.	Hairdressers Exams and Licenses	Labour	$1 - $20	$13,500
146.	Barber's Exams and Licenses	Labour	$1 - $20	$9,000
147.	Apprenticeship Fees, Registration Exams and Licenses	Labour	$1 - $10	$14,300
148.	Employment Agency License Fee	Labour	$50	$1,400
149.	Pension Plan Registration Fee	Labour	$1.50 per member Min. $22.50 - Max $750	$65,000
150.	Tuition Fees - Manitoba Fire College	Labour	Various	$21,800
151.	Municipal Board Fees	Municipal Affairs	Various	$18,000
152.	Municipal Planning Fees	Municipal Affairs	$50 (20 % of cost)	$120,000
153.	Sale of Municipal Officers Directory	Municipal Affairs	$3.50 per copy	$1,900
154.	Sale of Maps, Books, etc	Municipal Affairs	Various	$2,000
155.	Angling Licenses	Natural Resources	$6 Resident, $30 Non-Resident	$1,671,000
156.	Live Fish Holding Permit - Live Fish Farming License	Natural Resources	$15	$600

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
157.	Commercial Bait Fishing License Dealer's License	Natural Resources	$50 + $10	$4,500
158.	Commercial Fishing Licenses Operator and Hired Man	Natural Resources	Various Various	$39,500 $32,000
159.	Confiscated Fish Eggs, etc.	Natural Resources	Various	$3,600
160.	Timber Permits	Natural Resources	Various	$158,000
161.	Hay and Grazing Permits	Natural Resources	Various	$2,400
162.	Sawmill and Timber Dealers License	Natural Resources	$10	$1,400
163.	Forest Management Licenses	Natural Resources	Manfor $.929 per cubic metre Abitibi $4.88 per cubic metre	$1,196,700
164.	General Permits	Natural Resources	Various	$4,000
165.	Nursery Stock	Natural Resources	$65 per 1,000	$6,000
166.	Timber Sales	Natural Resources	Various	$768,800
167.	Crown Land Leases	Natural Resources	Various	$60,800
168.	Wild Rice Licenses	Natural Resources	$25	$26,400
169.	Concessionaire Rentals	Natural Resources	2% of Appraisal	$16,300
170.	Lot Rentals Vacation	Natural Resources	2% of appraised market value	$187,000
171.	Garden Plots	Natural Resources	$20 plots, $5 lockers	$5,000
172.	Lot Development Fees	Natural Resources	Various	$7,800
173.	General Permits	Natural Resources	Various	$132,300
174.	Lot Rentals - Vacation Homes Within Parks	Natural Resources	2% of appraised value	$1,696,500
175.	Parks Fees, Lease Transfers, Assignments, etc.	Natural Resources	$10	$4,300
176.	Lot Development Initial Fee	Natural Resources	Actual Development Cost	$151,900
177.	Privately Owned Park Lots	Natural Resources	Various Service Fees	$38,100
178.	Community Private Docks	Natural Resources	$10	$100
179.	Hay and Grazing Permits - Parks	Natural Resources	$3.90/ton	$9,000
180.	Commercial Operators - Lot Rentals - Parks	Natural Resources	Various	$175,800
181.	Cottage Rentals, Hecla, Camp Morton, Fronwood Point	Natural Resources	Various	$74,500
182.	Miniature Golf, Tennis, etc. Fees - Parks	Natural Resources	Various	$34,100
183.	Golf Course Fees	Natural Resources	Various	$377,900

	FEE OR CHARGE	DEPARTMENT	LEVEL OR BASIS	TOTAL REVENUE 1985/86
184.	Parks Laundry	Natural Resources	$.50 per Wash Cycle $.10 per Dry Cycle	$1,400
185.	Docking Fees Gull Harbour	Natural Resources	$2 $36 per season per Metre of boat length	$1,800
186.	Ski Tow Charges	Natural Resources	Various	$50,000
187.	Parks Land Rent	Natural Resources	Various	$5,300
188.	Camping Permits	Natural Resources	Various	$1,419,900
189.	Winter Storage Rent	Natural Resources	$25 per trailer per winter	$6,200
190.	Park Entrance Fees	Natural Resources	$2 per car, $10 per season	$626,200
191.	Park - Lot Rental, Misc.	Natural Resources	$40 per acre	$8,100
192.	Leases Beaudry Park	Natural Resources	Tenders	$38,100
193.	Well Drilling Licenses	Natural Resources	$10 per rig	$600
194.	Wildlife Certificates	Natural Resources	$7	$441,100
195.	Big Game Licenses	Natural Resources	Various	$1,145,600
196.	Game Bird Licenses	Natural Resources	Resident $7 Non-Resident $45 Wild Turkey $10	$558,000
197.	Fur Royalties	Natural Resources	From $.01 (Badger) to $1.25 (Otter)	$57,000
198.	Trappers Licenses	Natural Resources	Open Area $2 Registered Trapline $3	$28,100
199.	Employee Board	Natural Resources	$2 per meal	$84,400
200.	Select Maps and Prints	Natural Resources	Various	$231,000
201.	Sale of Books	Natural Resources	$1 - $10.50	$1,000
202.	Land Sales	Natural Resources	$100 per lot residential & survey and development costs or appraised market value	$750,000

VII. RECOMMENDATIONS

The following recommendations are interrelated due to the overlapping of the various components, and should be viewed as a reform package rather than as individual free-standing initiatives. The overall intent is to realign responsibilities within the overall expenditure management system and to improve the effectiveness of the decision making process.

A. The Treasury Board System

The first and most important recommendation is that the role and structure of Treasury Board be altered to further emphasize its primary responsibility for major revenue and expenditure decisions and the management of revenue increase and expenditure reduction initiatives. A number of current functions and approvals would be delegated to Departmental managers to provide additional Treasury Board Ministerial and staff time to focus more attention on the broader role. Specific recommendations include:

1. appointment of a senior official within the Department of Finance at an Assistant or Associate Deputy Ministerial level to serve as Secretary of the Treasury Board and with full time responsibility for Treasury Board operations;

2. appointment of the Deputy Minister of Finance as an ex-officio member of the Treasury Board;

3. amalgamation of the staff support and analysis units of the Treasury Board, the Economic Resource Investment Committee/Jobs Fund Board, and Social Resources Committee of Cabinet into one physical location to facilitate the sharing of information and analysis among the staff groups;

4. assignment of a special analyst section within the Treasury Board Secretariat to work with Departments on the long-term expenditure reduction process. This unit should have a senior manager in charge and access to the most knowledgeable resources within the Provincial Government and within the larger Manitoba community;

5. referral and review of all Cabinet submissions involving revenue or expenditure implications to Treasury Board prior to consideration by the full Cabinet. Matters that should be referred to Treasury Board include:

    a. Changes in programs and projects from those approved by the Cabinet when the departmental budget for the fiscal year was approved

b. Changes which will occur in the amount of funds expended within the departmental budget

c. Changes in the staff establishments

d. Changes in organizational structure

e. Additional Space requirements

f. Changes in vehicles establishment

g. Any other matters which may affect the program costs.

6. attendance by senior Departmental officials at Treasury Board meetings on an as needed basis.

7. continuation of the current arrangement of having the Minister of Finance designated as the Chairperson of Treasury Board, with the Finance and Treasury Board functions remaining solidly linked. This recommendation is based on the premise that revenue and expenditure issues are too inter-related to be assigned to distinct and separate authorities within the expenditure management system.

8. continuation of the practice of the Minister of Finance discussing major issues of tax and budgetary policy directly with the Premier and full Cabinet.

B. <u>The Policy Committees of Cabinet</u>

It is recommended that the major policy committees, Social Resources Committee and Economic Resources Investment Committee be assigned the following roles within the expenditure management system. This implies a narrower role for Committees which will need to be evaluated from time to time.

1. establishment of policy priorities and directions to be confirmed by the whole of Cabinet annually;

2. provision of a sectoral context to Treasury Board for its estimates preparation deliberations;

3. provision of sectoral policy advice to Treasury Board as required in Treasury Board's mid-year review of expenditure-related requests;

4. referral to Treasury Board of any decision requests having expenditure implications, supplemented by sectoral policy advice or specific recommendations if considered desirable; and

5. ongoing review of progress in meeting sectoral policy objectives.

It is further recommended that the policy committees not have decision-making authority on expenditure-related issues. The exception recommended to this policy is a continuation of the current delegation to the Economic Resource Investment Committee of Cabinet of detailed decision-making authority for Jobs Fund expenditures within the total approved by Treasury Board and Cabinet.

An additional recommendation is that the operation of the policy committees be reinforced in the following areas:

a. strengthening of the staff analysis function and its role in serving the Ministerial review and decision-making process.

b. strengthening of a working relationship between Committee staff, departmental staff, and Ministers by continuing interaction among these individuals.

C. <u>The Estimates Process</u>

It is recommended that the current estimates process be shortened in time frame and simplified in requirements to streamline the preparation and review of departmental proposals and to focus on issues of substance.

It is further recommended that the printed estimates represent a full projection of expected committed expenditures, including forecast volume increases and forecast lapse factors. It is recommended that the structure of the estimates review process incorporate the following priority features:

* <u>Policy Framework</u> (May - June)

The policy framework would be developed by central agency staff (Executive Council, Treasury Board and ERIC/SRC) with the involvement of all Cabinet Committees and discussed, debated, modified and finally approved by Cabinet. This document would set out the general parameters for budget preparation through direction (e.g. growth in selective areas, no growth, downsizing, etc.) and themes (e.g.

reform, filling gaps in programming, devolution, etc.). This policy framework should be established and communicated to departments in May and June, and would replace the current Strategic Program Overview exercise.

* **Call for Estimates** (June)

  The Call for Estimates directives would be developed by central agency staff in accordance with the policy framework and distributed to departments in June.

* **Estimates Submissions** (August - October)

  Submissions would be prepared by departments in accordance with policy framework and in compliance with the call for estimates. These should be submitted to central agency staff for review between August and October. A short introduction to the estimates submission should incorporate the current Strategic Program Overview (SPO) feature.

* **Estimates Review** (September - November)

  A detailed review would be undertaken by central agency staff in conjunction with Treasury Board, with departments presenting requests and central agency staff providing analysis and recommendations consistent with their overview function (i.e. within the total government context). These reviews should take place between September and November.

* **Estimates Review** (December - January)

  Estimates finalization would be undertaken on two fronts, the first being a December Treasury Board session, and the last being a full Cabinet session in January.

* **Departmental Input**

  The essential departmental input to this process should take place as noted in the Estimates Submissions section as well as through Ministers in the Cabinet discussion of the policy framework.

* **Communications**

  Immediately following the Cabinet finalization decisions, departments should be given the information necessary to prepare their public communication stance.

It is also recommended that the annual estimates process be reformed to a multi-year projection of expenditures, with departments required to discuss proposals in the context of previous year budget and actual, current year budget and forecast, next year budget request, and the next two or three years' projections.

On a number of specific alternatives considered during the course of this review, the following recommendations are offered:

1. Multi-Year Budgeting

   It is recommended that the estimates process shift from a one year basis to a five year basis for expenditure approvals. This transition will require the development of more accurate expenditure forecasts. It would likely take several years to implement effectively.

2. Policy Priorities

   It is recommended that an overriding policy priority be the consolidation of existing programs and the improvement of productivity in major program areas such as health care, education and community services. This priority will necessarily be monitored and implemented through the estimates process.

3. Envelope System

   It is recommended that the Manitoba Government not adopt an envelope system approach to its expenditure management activities.

4. Funding Reserve

   It is recommended that the Manitoba Government consider the creation of a reserve for mid-year expenditure decisions when fiscal circumstances make such an arrangement feasible.

5. Funding of External Agencies

It is recommended that the Manitoba Government initiate detailed reviews of external agency funding in major program areas. Attention needs to be focused on incentives for productivity improvement in external agencies. In particular, the basis for funding to hospitals should be reviewed and consideration given to a system based on specific services performed.

6. Loan/Budgetary Relationship

It is recommended that proposed Loan Act expenditures be subject to the same level of detailed review and scrutiny by The Treasury Board, Cabinet and Legislative Assembly as budgetary expenditures. To support the Legislative Assembly's review additional information would need to be provided.

7. Defining Capital Expenditures

It is recommended that the Manitoba Government adopt a new definition of capital expenditures which is a fair representation of all expenditures that add to the capital assets of the provinces as noted in a previous section.

D. Long-Term Expenditure Reduction

It is recommended that a long-term expenditure reduction process be commenced with the following framework, guidelines and motivational factors:

1. Framework

(a) Departments be asked to define cost reduction options which could be implemented over the next three years in particular but over a longer time frame as required to achieve savings in specific areas.

(b) Each department be asked to identify cost savings potential totalling X% of the department's 1986-87 approved funding as represented in the printed estimates. The X% level can be reached at any point in the three-year period, and does not have to be achieved in the first year of the three-year effort. The "X" level should be decided by the Cabinet.

(c) In addition to identifying areas of known cost-saving potential, departments be asked to identify areas where improvements on a number of fronts (e.g. simplifying decision-making process) would create an environment within which cost-savings and/or increased productivity might occur over time but cannot be quantified or guaranteed. This additional thrust would be intended to have management focus on areas of needed changes that would improve their operations but are not encouraged in the existing operational framework.

(d) For areas of overlapping jurisdiction, departments may include reduction options which have implications for other departments.

(e) No areas of cost are excluded from the source of options (i.e. grants and staffing can be considered as areas for possible reductions, as well as statutory and commonly designated as "non-discretionary" items). However, departments should take full account of government policies and priorities in identifying their range of alternatives, and should ensure that a variety of measures are identified.

2. Guidelines

There is a clear consensus among Senior Managers that there are no "easy" cuts remaining. To assist Departments in identifying options, therefore, the following guidelines have been developed as areas of potential reductions:

(a) phasing out programs which have fulfilled their mandates but have no relevant role in the current context due to changes in the target groups, etc.

(b) reforming or abandoning programs which cannot meet their objectives and therefore represent an inappropriate use of resources as they are currently being operated.

(c) imposing new or increased fees or charges for services which are or could be subject to recovery of some or all costs from the public or another level of government.

(d) phasing out programs which overlap with other programs at any level of government or even the private sector and therefore represent a duplication of effort not justified by the relevant target group, where that duplication cannot be justified by policy considerations.

(e) simplifying programs which have achieved a level of complexity (in reporting, monitoring, etc.) which significantly hinders their effective operation: programs which could be candidates for changes that may decrease costs to government over time (e.g. decrease volume of paper flow through decentralization of decision-making, elimination of steps in approval processes, etc.)

(f) devolving of programs to other levels of government or non-government organizations or the private sector where direct delivery by the provincial government is not essential and could be replaced by a (possibly decreasing over time) granting mechanism or where self-regulation is feasible.

(g) eliminating programs which are low in priority if forced to compete with other programs for increasingly limited resources.

(h) consolidating programs of similar purpose, structure, etc. where such consolidation would bring improvements in meeting objectives.

3. Motivational Factors

Senior management within the government will require motivation to actively participate in making this reduction exercise a success. While this is an area requiring more detailed consideration, it is clear that the measures should, at a minimum:

(a) encourage innovation in defining reduction options,

(b) reward positive performance,

(c) penalize negative performance,

(d) encourage judgement calls which may be controversial but are justifiable and necessary, and

(e) provide motivation to recognize the need for major expenditure reductions to meet the Manitoba Government's long-term fiscal management objectives.

4. Specific Expenditure Reduction Suggestions

The following specific listing notes some of the areas recommended for consideration in the long-term expenditure management process.

* Reduction or elimination of Jobs Fund counter-cyclical initiatives which are no longer necessary in view of current unemployment levels in the Province;

* opening negotiations with the Government of Canada to extend the ERDA agreement expenditures over seven years rather than the current five-year framework;
* changing the intake period for selective grant and subsidy programs to once every 2 years instead of the current annual intake;

* an evaluation of Manitoba infrastructure requirements to the year 2000 as a basis for further capital investments;

* devolution of program delivery to external agencies where government delivery of a particular service is not essential and where management of the contract will not pose an excessive burden on existing structures currently in place for such purposes;

* reduction in the number of middle management positions throughout the government and a flattening of management structures;

* a planned phase out of the Hydro Rate Stabilization Fund.

E. Subsidies

While a comprehensive review of fees and charges is included in the Taxation Review Report the following subsidized services are recommended for consideration of full-cost recovery

	Services	Potential For Full-Cost Recovery
	Service/Fee	Department
1.	Diagnostic Services	Agriculture
2.	Semen Purchases	Agriculture
3.	Appeals Under Highway Protection Act	Consumer and Corporate Affairs

4.	Real Estate Agent Act Fees	Consumer and Corporate Affairs
5.	Security Registrations	Consumer and Corporate Affairs
6.	Environmental Testing (Laboratory Fees)	Environment, Workplace Health and Safety
7.	Building Permit and Inspection Fees	Labour
8.	Elevator Permits	Labour
9.	Municipal Planning Fees	Municipal Affairs
10.	Municipal Board Fees	Municipal Affairs
11.	Subsidized Employee Meals	Various Departments and Agencies

In addition it is recommended that the subsidies provided by way of tax expenditures and direct grant or subsidized loan programs be subjected to the scrutiny of the Treasury Board and Cabinet annually as part of a separate and special review.

F. Performance Evaluation

It is recommended that the provincial government set up a priority central agency function to review organizational deficiencies within departments and recommend remedial action to improve the effectiveness of program operations. In addition to the organizational reviews, the staff unit should be assigned reviews of management performance in selective departments or program areas identified by Treasury Board.

G. Consultation/Participation

It is recommended that the government make a concerted effort to improve its internal communication of policy directions and expenditure parameters so that the civil service as a whole is aware of the fiscal situation and objectives, and understands its role in achieving those objectives.

Further work should be undertaken in defining the specific options for action in this area; however, a starting point would be the establishment of regular formal briefing sessions -- (a) for the Secretary to Treasury Board and the other Cabinet Committee Secretaries with the relevant Deputy Ministers; (b) for each Deputy Minister with middle managers of his/her department; and (c) for middle managers and program directors with all other departmental staff.

With respect to the external consultation issue, action on this front by the current Minister of Finance should be extended and reinforced as a fundamental part of the government's operations. It is recommended that these consultations involve other Cabinet Ministers as well, to ensure consistency of the message and the overall strength of message as representing government policy.

A major challenge in the consultation/participation area will be to bring the varying interest groups and the general public "on side" in accepting the need for expenditure reductions by the Manitoba Government. It is recommended that the government consider a formal large scale and broadly targeted consultation exercise for this purpose.

1. <u>The Ministerial - Official Interface</u>

   To improve the consistency of direction between elected officials and managers it is recommended that at least quarterly joint meetings take place between Treasury Board Ministers and Deputy Ministers and other senior managers.

2. <u>The Internal Communications Links</u>

   It is recommended that a regular series of expenditure management bulletins be issued to all managers from Treasury Board containing positive examples of successful productivity improvement efforts within The Manitoba Government. As well the bulletin should assist in conveying overall expenditure priorities to line managers.

3. <u>The External Factor</u>

   As with internal communication - more is better. Cabinet Ministers need to devote more time to external communication and consultation on Expenditure Management issues. The approach taken by successive Finance Ministers is an excellent first step. However, individual line Ministers need to undertake intensive consultations to convey the overall fiscal situation and the Province's approach to all interested and affected parties.

4. Bargaining Agents and Consultation

Of prime importance will be the creation of more flexible and workable means for employee participation in decision-making. It is recommended that Ministers initiate discussions at Joint Council to bring about a tiered system of worker participation at all levels in the decision-making process. Of particular importance will be the cooperative involvement of shop stewards and other employee representatives.

VIII. CONCLUSION - COMMITMENT TO RENEWAL

The substantive conclusion to this report will not be evident in lofty pronouncements but in the clarity of decisions taken and their rational communication to the public and affected parties. In the long-term it will be the quality of those decisions for all of the people of Manitoba that will be the appropriate criteria for judging their wisdom. Improvements to an expenditure management system can assist and support difficult choices by decision-makers; they cannot substitute for those decisions.

Manitoba is still a pioneer society. One hundred years ago, there was little built on this prairie which we would now recognize. One hundred years from now, one can hope that there will be much of value built upon foundations that generations of Manitobans have laid. Our public policy decisions taken in the next few years will be of great importance to the strength of that foundation and to our future. We can build slowly and solidly as have our predecessors or we can leave a fragile legacy to our children. This is the quality and importance of the choices that we must make.

There is little or no mystery in the difficult task of expenditure management. It is hard work and it requires a cooperative effort by thousands of individuals.

Criticism of government spending is easily levelled and much less readily countered. When the issue is government spending it is all too easy for us to be hypocritical - convinced of the wastefulness which surely must characterize government spending in general - yet quick to object to any reduction in program or service which affects us. Calm, rational discussion of particular spending programs may not be easily achieved but it is essential to a well managed government which serves the Province. It is hoped that these proposals contribute to a framework for such a debate.

It is also hoped that the overriding need for fairness in expenditure decisions will be a priority. Concern for the impact of decisions on the people least able to defend their own interests will be paramount. The advocacy of this review is for a better expenditure management system so that the Provincial Government can best meet the needs of all citizens but, in particular, so that those with the greatest needs can receive the assistance they require.

Manitoba is far from unique in its fiscal dilemma. Other Canadian provinces have confronted the gap between expenditure and revenue growth during the past decade. Radical approaches have been adopted in two other provinces. The Government of Quebec introduced measures to dramatically reduce wage levels in the public sector. The wage

reduction approach caused widespread dissension and conflict in Quebec. The Government of British Columbia introduced measures to dramatically reduce the number of employees in the public sector of that province. Again confrontation and conflict were a major consequence. Both Quebec and British Columbia were able to achieve major expenditure reductions by their radical actions. It is not for this report to gauge the wisdom or other costs of these approaches. It is however reasonable to consider their applicability to Manitoba.

Manitoba is a province of moderation for much of its recent history. While radical rhetoric has occasionally dominated the political debate the actions of various governments have tended to moderate and consensus approaches to solving the province's problems. Much evidence can be cited to support this conclusion including the relatively high degree of labour-management cooperation; the strong community support for the non-profit institutions of culture and the arts; as well as the tradition of support for cooperative federalism and a strong Canadian government.

Radical approaches such as a dramatic reduction in numbers of Provincial public servants or a dramatic reduction in their wage levels would risk an era of confrontation and conflict. Moderation would be an early casualty in these approaches. Civil servants and services to the public would be victims of either approach. Unfairness would be inevitable. The stability of Manitoba and much of its recent economic progress could be put at risk by radical approaches. The value of a reputation for stability and its reality is difficult to quantify - its loss would be profound. It is for this reason that the central theme of these recommendations is moderation in approach. Reform of the taxation system and the expenditure management process are, in the view of this report, necessary to the addressing of the Province's serious fiscal situation. Radical change would be unwarranted, counter-productive and damaging to the Province's long-term interest.

Manitobans have demonstrated an unusual ability to work together to solve fundamental problems whether the need is to construct a Floodway or to redevelop the Core Area of Winnipeg. Innovation has been a welcome aspect of Manitoba character. Both will be necessary if the excellent quality of life is to be preserved and the revenue and expenditure base of the Provincial Government is to be reformed.